

**USAID MACEDONIA
COUNTRY STRATEGY
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1. Introduction

This plan sets forth USAID's strategy for facilitating and further strengthening Macedonia's* transition to a market-oriented democracy. It is both a strategy and a graduation plan and presents two scenarios - one which calls for graduation in 2004 (which is the Mission's clear recommendation) and another for graduation in 2001, as originally scheduled. As will be described further on, since becoming independent in 1991, Macedonia has made significant, and in many ways remarkable, strides in both economic and political reform. The transition, however, is far from complete. USAID needs to continue its contribution during this next important phase of Macedonia's development, at a time when its peaceful evolution is crucial to regional stability.

This strategy is the product of a participatory process undertaken with USAID's major stakeholders, counterparts and customers. During the past year it has also been guided by a series of economic, sectoral and subsectoral studies. In addition, the criteria used for selection of proposed future program components include such considerations as: past program performance; USAID's comparative advantage vis-a-vis other donors; Macedonia's political will for bringing about further change; potential for the program to have significant impact on key issues facing Macedonia; and prospects for program sustainability in the longer term.

In short the following plan sets the stage for the next, crucial, and final phase of USAID's program in Macedonia.

2. U.S. Foreign Policy Interests

As set forth in the Support for East European Democracy (SEED) Act, which funds USAID's program, overall goals of the legislation are the promotion of stable democracies and free market economies, driven by vibrant private sectors.

These goals closely relate to U.S. foreign policy objectives in Southeast Europe which support the achievement of stability in the region by (1) helping consolidate reform within individual states, (2) encouraging cooperation among states, and (3) advancing the region's integration into Europe as a whole.

U.S. objectives in Macedonia emphasize democratization, economic reform and Euro-Atlantic intergration as the basis for regional stability. The USAID program is structured to support these objectives through its active promotion of democratization, economic reform and easing ethnic tensions. The importance of all three objectives to stability in the region is presently highlighted by growing tensions in nearby Kosovo.

* For the sake of simplicity The Former Yugoslav Republic of Macedonia will be referred to as Macedonia.

U.S. objectives in Macedonia are also supported by the presence of approximately 350 U.S. troops as part of the United Nations Preventative Deployment Force (UNPREDEP), which since 1993 has helped maintain peace and stability in the region, particularly along the poorly demarcated border with Serbia.

3. The Transition Environment

A. Overview

Macedonia is entering into another, and likely crucial, phase of its development. Heretofore it has been preoccupied largely with the difficult tasks of establishing macroeconomic stability, a multiparty political state and the basic institutions of government. It has succeeded in achieving a measure of macroeconomic stability and, in the process, has reduced inflation from approximately 2000 percent in 1992 to an estimated 4.5 per cent in 1997. Macedonian institutions, while still in their infancy and with varying degrees of commitment and efficiency, have begun necessary reforms. Politically, a multiparty state has been established and a coalition government, which includes the participation of the Albanian minority, presently holds power. Macedonian political parties appear to have arrived at political consensus on several basic policies which include: development of democracy; transition to a market economy; accession to the European Union and NATO; and improving relations with neighbors.

The road ahead will likely be as difficult, if not more so, as that traversed thus far. Maintenance of macroeconomic stability will continue to be a priority, requiring continued prudent monetary and fiscal management. Increasingly, however, Macedonia will have to take more vigorous steps to stimulate economic growth in order to increase needed domestic and international investment, reduce unemployment levels and maintain political stability. This will require, among other things, creating a positive climate for expansion of the private sector and, simultaneously defining the proper role of government in a market economy. As in many transition countries, the Macedonian Government tends to be involved in decisions it shouldn't be (setting import and export controls) at the wrong levels (building permits issued at the national level) and less involved where it should be (banking oversight). These respective roles will have to be sorted out if a free market is to function effectively.

In its political development, Macedonia will need to broaden its multiparty democracy to give all of its citizens, particularly its Albanian minority, a greater sense that government is of, by and for the people. Greater efforts will have to be made to reduce ethnic tensions among the two principal ethnic groups - Macedonian and Albanian. In this regard, government, the private sector, and non-governmental organizations all have an expanded role to play. As in the case of economic reform, a continuing issue will be the proper role of government at all levels. The nascent movement to devolve authority to local government may offer an opportunity to restore a degree of public confidence in the provision of services and may also help, if properly structured, to bridge ethnic differences.

As it proceeds with further economic and political reform, Macedonia faces a number of real or potential constraints. Within the Government, newly privatized industry, and even the NGO community are those who have profited and continue to profit under the status quo. The threat of increasing unemployment (now estimated by the World Bank to be between 25 to 35 percent) causes public officials and private managers to hesitate reducing redundant labor and taking other steps which might increase productivity but puts workers out on the street. The existing labor force generally has technical skills equal to or better than other neighboring countries but it does lack some expertise necessary to private sector development, for example computer science, marketing, and capital markets.

Increased domestic and foreign investment require public confidence, yet that condition has been severely strained by recent banking scandal. Lack of public confidence in government institutions exists at every level of government. Only greater transparency, public education and time will re-establish this essential relationship.

Although hard data are presently lacking, evidence is growing that social indicators in Macedonia, particularly in health and education, are deteriorating. In the longer term this bodes ill for Macedonia's human resources development. In the shorter term it will place added demands on investment for social infrastructure, funds which are also needed for expansion of the private sector.

At this stage in Macedonia's development, opportunities abound for NGOs to provide services, strengthen advocacy, bridge ethnic differences and undertake public awareness. Unfortunately the NGO movement is still in formative stages, is unfamiliar with a democratic environment, lacks national level organization (particularly for advocacy), does not interact internally, and, with a few exceptions, provides local level services on a parallel basis rather than spanning ethnic lines.

Finally, the specter hanging over everything is the possibility of inter-ethnic violence, resulting either as a spill over from Kosovo, or occasioned by some political miscalculation within Macedonia. Were this to happen, all of the political and economic progress realized to date could unravel.

While these constraints are real and require due consideration in the development of a strategy, and careful monitoring thereafter, on balance Macedonia offers good prospects for future development. It is the only former Yugoslav republic to have gained independence without bloodshed and has demonstrated an ability to avoid major conflict since then. It has elected a multi-ethnic coalition government which, through stressed and strained, has held together. It has undertaken difficult macroeconomic reforms and has brought inflation under control. Although overshadowed in recent years by the difficult process of transition to a market economy, Macedonia possesses a diversified and potentially sound economic base. Assuming it takes appropriate political and economic reform steps over the next few years, and with proper assistance from donors (including USAID) Macedonia, should be well on its way to sustained development by 2004.

The next paragraphs further explore Macedonia's progress in the political, economic and social arenas.

B. Political Reform

ENI's paper "Monitoring Country Progress in Central and Eastern Europe and in the New Independent States" (January 1998) provides a framework for comparing progress on political, economic, and social reforms within twenty five-transition states in the region. The paper draws upon data from EBRD, Freedom House, and the World Bank, with supplemental sources from the IMF, UNDP and the Bureau of Census. Based on Freedom House "democratic freedoms" data (April 1997) Macedonia ranks eleven out of twenty four of ENI countries while among Southern Tier CEE countries it ranks ahead of Albania, but behind Bulgaria and Romania. In terms of Political Rights, in 1996 Macedonia ranked about even with Albania (4.0) but considerably behind Bulgaria and Romania. In the case of civil liberties, Macedonia ranks generally on a par with Romania, and Bulgaria (3.0) and ahead of Albania (4.0). Finally on a disaggregated basis (i.e. political process, civil society, independent media, rule of law, govt/public administration) Macedonia averages 3.9, on a par with Bulgaria, slightly ahead of Romania and significantly ahead of Albania.

Translated in terms of specific accomplishments, Macedonia is a parliamentary democracy, currently led by a multi-ethnic coalition government. Local elections in November 1996 confirmed that the government had put into place internationally recognized electoral practices. International monitors found parliamentary elections in 1994 to be generally free and fair despite many procedural irregularities. The next parliamentary elections will be held in the fall of 1998. The government has made further electoral reform a priority with draft legislation on polling sites and the electoral model currently under consideration in the parliament.

The Constitution provides for the protection of fundamental human rights. The government generally respects these rights in practice, although there are problems in some areas. Minorities, particularly ethnic Albanians, ethnic Turks and others raise various allegations of human rights infringements and discrimination. Ethnic minorities have made inroads in securing more representation in state institutions, although ethnic Macedonians continue to hold a disproportionate number of positions.

The Constitution provides for an independent judiciary and the government respects this provision in practice, although the court system is still developing and is somewhat inefficient and slow. Enforcement of decisions is also problematic. Partly because of this, the public tends to hold the judiciary in low repute. Human rights activists are beginning to use the judicial system to further their objectives. In February 1997, Parliament passed a law establishing the office of a people's ombudsman to defend citizens' constitutional and legal rights. An ombudsman was appointed in June 1997.

The Constitution provides for the rights of peaceful assembly and association and the government respects them in practice. Political parties are free to organize and operate. Non-governmental organizations are becoming more prominent in society. The constitution forbids censorship and provides for freedom of speech, public access, public information and the freedom to establish media outlets.

Several daily newspapers are published in Skopje as well as numerous weekly or periodical political and other publications. The international press is also locally available. The introduction of competition in the print media is resulting in price reduction, increased circulation and, in addition, more extensive reporting and a livelier tone.

As the above demonstrates, Macedonia has in place most of the constitutional and legal framework essential for a modern democracy with the exception of some legislation Macedonia inherited from Yugoslavia that is now in the course of being revised. What is missing, however, is implementation. For example:

Political parties need to engage in more outreach, responding to constituent demand and crossing ethnic and gender lines.

Government decision making needs to be more decentralized, devolving authority to the level appropriate for interaction with citizens.

Parliament needs to develop a more effective, responsive, and transparent system for drafting legislation.

All political institutions need to operate in a more transparent and predictable manner.

National level NGOs need to be created that track government performance, educate the public and advocate public policy.

Several points should be made concerning the Macedonian-Albanian issue.

According to the 1994 census, Macedonia's population was 2.1 million of which 67 percent was Macedonian, 23 per cent Albanian and the balance made up of Turks, Slavs and others. The Albanian's dispute these numbers claiming that they represent 40 per cent of the population and that serious under counting took place during the census. The census may not have counted significant numbers of recently arrived Albanians from Kosovo and Albania. In addition the Albanian birthrate appears to be the higher of the two groups. Official statistics indicate, in any event, that the proportion of Albanians to Macedonians in Macedonia is increasing. The significance of this is twofold; Albanian share of government goods and services is perceived to be (and probably is) not proportional to their numbers and, from a Macedonian perspective, Albanian population growth represents a tangible threat.

Having been fought over and conquered for centuries by Serbs, Bulgarians, Greeks, Turks and others, Macedonians feel threatened from without and within. This sense of potential threat is reflected in Macedonia's constitution by the ambivalence with which "nationalities" are treated. In essence all nationalities (ethnic groups) are given equal rights but in a Macedonian state, a somewhat analogous situation to Arabs in Israel, who are given full rights but in an Israeli homeland.

The bottom line is that Macedonians believe that some, but not all, Albanians are unwilling to live in a new civil society based upon individual rather than group rights. On the other hand, Albanians believe they are being deprived of rights they held in Yugoslavia; university education in the Albanian language, and flying the Albanian flag on municipal buildings. As in all such situations, stereotypical thinking abounds. It will take some time before ethnic Macedonians and ethnic Albanians adjust comfortably to their drastically new roles in a Macedonian state.

Although tension is high and has approached the flash point, there is reason to believe that conflict can be avoided. None of the ethnic parties espouses anti-Albanian rhetoric and all see the value in including Albanian party representation in coalition governments. Over the longer term the Albanian population may offer an attractive political target for Macedonian party courting. The trick, of course, for Macedonian political party leadership will be to attract minority votes without alienating the Macedonian majority. In the meanwhile, thus far, leadership on both sides has generally shown restraint and the government has shown a willingness, albeit slowly and hesitantly, to respond to Albanian concerns. For all of these reasons ethnic conflict can be contained; however, the issue will likely remain a threat for the foreseeable future.

C. Economic Reform

Using the same ENI developed data for monitoring country progress in Central and Eastern Europe and the New Independent States as that used above, Macedonia comes out generally in the middle of the pack of ENI countries in terms of performance in first and second round economic policy reforms (ahead of Albania, Romania, and Bulgaria in round one, and ahead of Romania and Albania but behind Bulgaria in round two). By the third round Macedonia had sunk to the third level of ENI countries (and behind the other Southern Tier CEE countries), reflecting its slowness in getting to competition, non-banking financial, and legal reforms. Overall for the three rounds Macedonia comes out about middle of the ENI pack (ahead of Bulgaria, slightly behind Romania and well behind Albania). On the basis of EBRD and Freedom House overall ratings of economic reforms, Macedonia emerges sixteenth in the former and eighteenth in the latter. What this reflects is that, having established a degree of macro-economic stability, Macedonia now must get on with a variety of sector reforms which will speed the transition to a market economy.

Macedonia, however, should be recognized for the difficult situation it has already overcome. In this it has proven its economic resilience. It has maintained political stability and an

acceptable standard of living in the face of enormous handicaps. Its major economic input and output linkages ran through Serbia, which has been the source of its industrial inputs and the market for its outputs. The freezing of nearly \$1 billion in Macedonian foreign exchange deposits and the retention of Macedonia's share of the Yugoslav Central Bank reserves by the Yugoslavian government left newly independent Macedonia with zero initial foreign exchange reserves and, at a personal level, created a bank-adverse, cash oriented economy. Landlocked Macedonia faced potentially difficult neighbors on all of its frontiers and, for the first four years of its existence, an embargo imposed on its principal trade routes to the North and South. At the same time it had to begin the transition from Yugoslavian socialism to a market based economy.

Following independence, national output fell precipitously. Macedonia's national income accounts are highly suspect, however, the World Bank estimates that GDP contracted more than thirty-five per cent from pre-independence levels. Much of the decline occurred in 1992, with lesser amounts in 1993, 1994 and 1995. The World Bank believes GDP stabilized in 1996 when a 0.7 per cent growth was recorded. In 1997 the growth rate rose modestly to 1.5 per cent. Currently GNP is estimated to be in the neighborhood of \$1860 per capita, a number, following some revision to the national accounts and better estimates of "grey market" activities, which is believed to be more accurate than before.

The central pillar in Macedonia's IMF-assisted stabilization program has been the *de facto* peg of the Macedonian denar to the German mark, with IMF monetary and fiscal performance criteria directed to this end. In the immediate aftermath of independence, a substantial budget deficit was incurred with inflation rising to almost 2000 per cent in 1992. In 1994 and 1996, IMF supported stabilization with associated austerity measures, brought inflation down to single digits where it has remained since. These same measures curbed the fiscal deficit from 12 per cent in 1992 to 1 per cent currently.

The rise in unemployment has roughly paralleled the drop in national income, between 25 and 35 per cent. More positively, debt arrearage, both internal and external, has been cleared and rescheduling agreements with Paris and London creditor clubs are in effect. On the other hand, a chronic trade deficit persists at the \$400 - 500 million level, thus far bridged by IMF/IBRD balance of payments support, remittances, trade credits, and unclassified, foreign exchange conversions.

As noted above, policy performance has been mixed. Major policy directions have been set, but the supporting and implementing policies are, for many areas, not in place. Monetary and fiscal policies have been vigorously and successfully applied to brake inflation. The Ministry of Development estimates that 80 per cent of prices are free - the exceptions being items like petroleum products, electricity and bread. Wages are free. There are no restrictions on sales, purchases or holding of foreign exchange. Import/export restrictions are few and the average duty level is believed to have been reduced to below 15 per cent. Agriculture, however, remains a problem area with input subsidies and price supports remaining.

Agriculture remains an important sector in the economy. It contributes eighteen per cent of GDP and accounts for fifteen per cent of employment. It has been relatively more buoyant than the rest of the economy during the transition from 1991 through 1996. At the beginning of the transition, the agricultural sector already had a strong private sector presence, representing 75 per cent of arable land and about two thirds of the value of agricultural output. Even with this strong private sector presence, however, the 200 or so socially owned business units (agrokominats and cooperatives) play an important role as suppliers of farm inputs and buyers of agricultural commodities for processing. They are also the recipients of substantial government interventions that constrain the overall agricultural sector. The World Bank plans a \$30 million loan which, *inter alia*, will address these agricultural policy issues and privatization of the agricultural sector. Other constraints facing the agribusiness subsector in particular include; the need for food safety standards; product grades and standards; and the need to remove export and import barriers.

Tax policy remains problematic with the introduction of a VAT, now delayed until 1999. Tax compliance suffers from lax enforcement procedures with the collection and assessment/enforcement responsibilities divided. From the prospective investors' standpoint, tax administration lacks transparency. Much of the emerging private sector, particularly the "grey" market, still manages to elude the tax rolls. Many hard budget policy issues remain to be addressed. A balanced budget is targeted but largely implemented by making government capital spending the residual balancing element. As a result, investment lags in schools, hospitals, and other social infrastructure. Social welfare and pension payments account for roughly half the government budget yet are neither generous nor well targeted. With many in the private sector in the unrecorded "grey" market, a large number are likely drawing unemployment benefits.

Statistics maintained by the National Privatization Agency (NPA) indicate that the private sector now accounts for 73.5 per cent of GDP. As of the end of December, 1997, NPA reported that the privatization program was nearing completion. Out of 1458 formerly state-owned firms, 1132 have been privatized and the remainder of firms are either in progress or scheduled for privatization. Privatization of the larger state-owned agricultural enterprises as well as larger industrial enterprises has not occurred and remains an unfinished agenda.

Yet privatization has occurred without significant change in management or corporate governance. Stockholder rights, except for majority holders, are nonexistent and corporate boards play no real role. Land ownership laws are unclear and without provision for the making, registering or enforcement of liens. The banking system is presently unable to mobilize savings and is burdened with non-performing loans. Moreover, individual banks are sometimes owned by the industrial firms to which they make loans.

Looking ahead, Macedonia must be able to access broadened markets to be economically viable. Although ultimate accession to the European Union is uncertain, and likely at least ten years away, interim free trade agreements have been worked out with Bulgaria, Slovenia, Croatia, Serbia, and are being negotiated with Albania and Romania. Other trade

arrangements need to follow. With its relatively educated population, varied agricultural base, reasonably good mineral and hydroelectric resources, potential for tourist development, and central location, Macedonia clearly has potential. However, investment - foreign and domestic - is lacking. Until investment levels rise sharply, the economy can progress at best slowly. Creation of an investment friendly, legal-judicial-regulatory context is a requirement if this is to happen.

D. Social Conditions

Current social data on Macedonia are generally missing or incomplete. (In this context it should be noted that the World Bank is in the process of updating its Country Report [last edition 1995] and plans at the same time to issue a poverty report, drafts of which should be available within the next few months). The consensus, however, among Macedonian and foreign observers alike, is that social conditions have considerably worsened since 1991. At that time Macedonia enjoyed relatively high quality-of-life indicators, particularly in health and education. Since independence social investment has been negligible, taking its toll on both infrastructure and human resources. Hospitals and clinics now lack equipment, supplies, and trained personnel, particularly at the primary clinic level. Most schools are now in double session and physical facilities have had little upgrade since the 1960's. The World Bank reports that some recent data suggest that health indicators in rural areas approach those of low income Africa and Asia. As in most other transitioning countries, degradation of the environment is contributing to the deterioration in quality-of-life standards, with negative implications for growth in productivity and investment.

Probably the most serious social (and economic) issue facing Macedonia today is unemployment. There is great variance in estimates of actual unemployment from a low of 17 per cent to a high near 50 per cent. High end estimates are based upon those seeking social security benefits, but these do not separate out "grey" market activity which, by all indications, is large and growing, nor expatriate workers who are temporarily visiting Macedonia before returning to external employment. After factoring out these distortions, most observers believe actual unemployment to be in the twenty-five to thirty-five per cent range. Unemployment appears to be evenly distributed among classes and ethnic groups, including even well educated groups. (In fact the high number of degree holders among the unemployed makes this group particularly difficult to place). Conventional wisdom is that Albanians, who are more apt to be farmers and small traders, have been less affected by unemployment, however, the World Bank reports that this is not borne out by household income surveys. In the short term, unemployment will likely increase as redundant labor is released from restructured industry and agricultural enterprises.

Much more needs to be known about the "grey" market which may be employing many times the levels presently believed. To the outside observer, Macedonia does not "feel" like a country suffering massive unemployment. Beggars and panhandlers are not ubiquitous (the police are reported to hustle them off the streets, however, the police are not ubiquitous either). Coffee shops are not crowded with idle young men that one sees routinely in many

developing countries. Household construction is ubiquitous, which may reflect only lack of faith in the banking system but the financing is coming from somewhere.

In any event, Macedonia's unemployment rate is a significant problem for the future and needs to be factored into Macedonian and international donor planning. In the short term the government needs to revise its welfare system and proceed with pension reform so that limited benefits are more fairly targeted. To the extent possible, investment needs to be increased for social infrastructure. In this regard the World Bank plans to increase its support to the health and education sectors significantly.

In the slightly longer term, Macedonia's social concerns can only be addressed by increased growth spurred by foreign and domestic investment, led by a vigorous and expanding private sector. The private sector, particularly the "grey" market and the export agricultural sector, offers the best opportunity for early expansion of employment.

4. Evolution of USAID's Country Program

USAID's program in Macedonia began in 1992 with the provision of humanitarian assistance, primarily food for Bosnian and Croatian refugees, and medical supplies for the Macedonian population. In January, 1993 the Office of the USAID Representative was established. Subsequently USAID initiated development activities in democratization (political party capacity, media training, rule of law), privatization, and a farmer-to-farmer program. In 1994 and years following, these activities were expanded considerably while assistance was also initiated in tax reform, NGO development, public administration, legal reform and additional democracy-related activities including citizen's participation in governance. Additional activities have been added in agriculture in light of the sector's potential importance in private sector expansion and employment growth. More recently the Mission has begun to explore the possibilities for development of local government as a means of increasing democracy at the grass roots level and easing ethnic tensions.

Initially this represented a "target of opportunity" approach which, under the existing circumstances, was entirely appropriate. Gradually these activities have coalesced into three basic themes soon to be Strategic Objectives: private sector expansion, including an effort to stimulate a critical mass of private sector and agricultural firms, and reform of the legal, regulatory and policy framework; a more vibrant civil society; and more responsive local government.

A number of factors have influenced the development of the program to date. The Macedonian government has been eager to press ahead with a number of reforms and has sought USAID's assistance in such key areas as banking, accounting and legal reform. Other efforts have been developed to respond to windows of opportunity, particularly civil society, party development and, more recently, local government.

Another strong factor in shaping the program has been other donor involvement. In particular, USAID's program has evolved in tandem with that of the World Bank. In some cases USAID has provided only modest support to a sector because of heavy World Bank or other donor involvement (privatization for example). In other instances USAID assistance closely complements, strengthens and or is strengthened by donor activity (for example, in banking and pension reform).

The Mission has found that some partners have been more effective to work with than others, sometimes because of strong or weak leadership, in others because of deeper institutional constraints. Early efforts in banking reforms were hamstrung; however, with a change in Macedonian leadership, the activity began to take hold. More recently support to rural credit has been constrained. Whether the political will to allow rural credit institutions to evolve is in place is not presently clear. The importance of the sector to USAID's strategy, however, probably argues for additional time and patience. In the end judging political will is an art and not a science.

Other initiatives have been generated because of Washington interests and mandates. Most of these have found resonance with Macedonian needs and, as a result, a home in USAID's program. Macedonia has many needs for which assistance is sought, and requests for support could be unending. With declining program funding, and limited management resources, however, only those activities which can make the most significant and highest priority contribution to USAID's strategy should continue in the future.

5. Strategy Summary

A. The Goal

The goal of U.S. assistance is to assist the Government of Macedonia to formulate and implement a series of reforms that will put it firmly on the road to economic and democratic transformation. The question is when will that moment arrive? At present the last scheduled U.S. contribution to Macedonia's transition is FY 2001. This paper argues that this date is premature. The U.S. can and will make many useful contributions to Macedonia's development by that time, however, in USAID's judgement, the structural changes, both political and economic, that should be in place before the U.S. disengages will not be realized by 2001. While prognosis is always difficult in a Balkan setting, an additional three years of assistance should set the capstone for a U.S. contribution to Macedonia's stable and peaceful development. An earlier termination could place U.S. accomplishments realized thus far at risk.

B. The Strategy

As noted above, USAID's program in Macedonia has evolved from a relatively loosely structured set of "targets of opportunity" to the presently proposed set of three Strategic Objectives involving expansion of the private sector, increased civic participation and local

government. Of the three, S.O. 1.3 (accelerated development and growth in the private sector) and S.O. 2.1 (citizens increase their participation in political and economic decision making) are the two flagship objectives by virtue of sunk investment, results to date and potential for future contribution to Macedonia's transition. The third, S.O. 2.3 (more effective, responsive and accountable local government), is a newer opportunity which also has substantial potential contribution to make but for which Macedonian political will has yet to be fully tested.

Part II which follows provides an elaboration of USAID's three strategic objectives including, for each S.O., an analysis of major problems and challenges, results frameworks, means for judging performance, illustrative program approaches, comment on political will and prospects for sustainability. The following represents a brief summary of S.O. highlights:

(1) USAID believes that an expanded private sector will be the primary vehicle for future growth and employment in the short to middle term. Considerable scope for rapid expansion exists in the smaller range firms (including the existing "grey" market) and the agricultural sector. Expansion of newly privatized firms will likely lag in the short term because of the post privatization management restructuring that needs to take place in order to get firms to a more bottom line orientation. The World Bank plans to put considerable resources into this undertaking. For other enterprises the S.O. is structured to support expansion through increasing financial transparency, increased access to sources of financing (including strengthened capital markets), improving legal and policy reforms, and improving business management systems and practices. USAID seriously considered establishing a second Strategic Objective 1.4 (a more competitive and market-responsive private financial sector), but, in the end, decided to propose only one economic restructuring S.O. The reasons for this were several: incorporation of a capital market component in S.O. 1.3 strengthened the causal linkages within the S.O.; it lessened the potential management load on USAID; and was consistent with the expected level of resources that could be applied to the S.O. As 2001 approaches, USAID envisions shifting emphasis within the S.O. from technical assistance support to enterprises, tax administration, banking operations, and equity investments, as targets in these areas are realized, to concentrate more on banking supervision and capital market development.

(2) S.O. 2.1 targets the strengthening of civil society and political parties which serve as vital channels for information dissemination, interest aggregation and representation. These are the key mechanisms through which and by which Macedonians can identify their interests, negotiate conflicts and have an impact on government policy. USAID believes that more interaction is needed among citizens, NGOs, parties and government in order to make Macedonia a better functioning democracy. Unlike the other two S.O.s, other donor support of NGOs and democratic institution building has been limited. Except for well coordinated assistance from the Dutch and minor amounts from the British, the U.S. largely has the field to itself. For the next three years USAID plans to focus attention on a number of activities: strengthening NGO financial management, advocacy, legislation and democratic governance; strengthening political party roles in elections, representation in Parliament and outreach, and

strengthening civic education curricula in primary school and junior high school. As noted earlier, NGOs are growing at the local level but lack national level organizations both for advocacy and ethnic bridging. USAID will attempt to shift resources within the S.O. to develop national level organizations. In a similar fashion, USAID foresees shifting resources to improve party performance both inside and outside parliament.

(3) The combination of a new legal framework for local government with increased local authorities and an increasingly difficult economic climate, which has diminished central funding of local needs, has opened new opportunities to promote decentralization and democracy at the local level in Macedonia. At the same time, progress in decentralization could provide an opportunity for power sharing between the two major ethnic groups in Macedonia, given that ethnic and geographic divisions coincide to an important extent. More effective and more powerful local governments could contribute to reducing tensions by allowing Albanians to solve problems locally. It is important to note, that the Macedonian Government's political will to devolve responsibility and authority has not been fully tested, however, USAID believes that potential gains in decentralization and democracy outweigh the risks of a possible lack of political will. The Local Government S.O. also offers opportunities to link up with important resources of EU Phare and the World bank and will include an important USAID element addressing Macedonia's municipal pollution activities.

The above three S.O.'s will address a number of important cross-cutting themes. Unemployment and ethnic tensions are two of the most important of these. Unemployment may get worse before it gets better as newly privatized enterprises shed redundant labor. It is USAID's position that the best and quickest way to increase employment is through expansion of the private sector including, importantly, the agribusiness sector. S.O. 1.3 is the principal vehicle for addressing employment concerns, however, both other S.O.s need to be reviewed continuously during implementation in order to respond to employment opportunities and to avoid unintended consequences that might exacerbate the situation. In a similar fashion, all three S.O.s have a role to play in addressing ethnic tensions. The two most obvious are S.O. 2.1 and 2.3, however, many of the potential activities under S.O. 1.3, for example in agribusiness, can play a role as well.

The issue of transparency will be addressed across all three S.O.s, in economic reform, as a part of civil society and as an important element of local government objectives. The three S.O.s will also promote linkages among civil society, NGOs, businesses, political parties and local government. Finally, all three S.O.s will promote sustainability of private organizations and public services.

6. Customer Focus

For the past eight months the USAID Mission has undergone a systematic programmatic review which has included retreats for each S.O. team to examine the scope and direction of future activities. Retreats included the full participation of partners, stakeholders and customers. (While ultimate customers are the Macedonian people, customers in this instance

included intermediary customer groups which in turn reach ultimate recipients). These retreats formed the basis for the Strategy that is presented herein. In addition, during the past several months, the strategy has been strengthened by a series of studies and analyses including a macro-economic review, an economic growth assessment, an environmental assessment, an NGO assessment, technical review of local government options, and a review of ethnic tension in Macedonia. All of these studies involved extensive contact with Macedonians at every level of society. (A listing of contacts during this phase of strategy development is included in the Annex.)

7. Graduation Prospects

In the broadest context Macedonia will be ready for graduation when: its macro-economic situation is under control; its private sector is expanding at a reasonably predictable rate so that employment is beginning to pick up; and it has a stable coalition government and ethnic tensions are contained or on the wane. It is likely that none of these conditions will be firmly in place by 2001. While the macro-economic situation is at least temporally under control, it is too early to declare victory. Unemployment is likely to increase in the short term. The next elections, in fall 1998, may well see the breakup of the coalition government which, with Albanian participation, has held power since 1994. Ethnic tensions, stirred up by external events in Kosovo and internally by clashes in the western cities of Gostivar and Tetovo, remain high. Macedonia will likely require several more years of U.S. assistance before an adequate transition can be said to have taken place.

The following high level indicators, while undoubtedly requiring more definition, could serve as approximators for measuring Macedonia's progress toward graduation:

- (a) Macroeconomic stability. Stabilization could be said to occur if the rate of inflation could be maintained at single digits for the next three years.
- (b) Investment. Investment levels, both foreign and domestic, rise to levels (to be determined) that indicate growing confidence in Macedonia's investment climate.
- (c) Private Sector Expansion. Barriers to formation of new firms are largely absent
- (d) Unemployment. After several years of increase, Macedonia's unemployment indicators begin to track a decrease.
- (e) Coalition Government. A coalition government crossing ethnic lines has been in power for three years following the 1998 election.
- (f) Civil Society. National level NGOs have been established and practice advocacy, public education and ethnic conciliation.

- (g) Local Government. Firm lines of authority have been established allowing local government units to serve constituents needs.
- (h) Ethnic Tension. Measured by the absence of strife, i.e. no major confrontations for three years.
- (i) Social Indicators. Investment in social infrastructure outpaces inflation.

Part II

Strategic Objective Plans

1. Statement of the Strategic Objective

S.O. 1.3 "Accelerated Development and Growth of the Private Sector."

Expansion of Macedonia's private sector is key to its future growth and employment and can have a favorable impact on reducing ethnic tensions as well. Macedonia has already taken two steps essential to private sector expansion: it has achieved a measure of macroeconomic stability and it has reached an advanced stage of privatization. USAID will concentrate on improving the enabling environment for private sector expansion and for this reason has modified the S.O. wording from "private enterprise" to "private sector" to emphasize a focus on the enabling environment rather than privatization.

USAID will consider this objective achieved when a variety of conditions are in place: (a) a network of businesses have adopted international accounting standards while auditing firms can measure and report on these standards and the tax system is both more transparent and predictable for prospective domestic and foreign investors; (b) private sector access to financing is improved because confidence in banking is restored, laws and regulations governing financing are in place, and a fully functioning capital market is established; (c) a critical mass of private sector firms (including private agricultural firms) have improved management systems, policies, standards and practices; and (d) implementation of commercial law is improved.

2. Problem Analysis

Several conditions are necessary for the private sector to expand in Macedonia. There needs to be continued macroeconomic stability through government's prudent management of monetary and fiscal policy and the process of privatization needs to be completed. Although the great majority of formerly publicly held firms have been legally privatized, problems of corporate governance (in essence a lack of focus on bottom line management) continue. The World Bank plans a major effort to rectify this problem. Finally, the overall environment for private sector expansion needs to be improved.

During the course of the past several months USAID's development of S.O. 1.3 has been strengthened by two analyses: a macroeconomic analysis of Macedonia's economy which confirmed the importance of the expansion of the private sector to Macedonia's future growth and employment and an economic growth assessment report which confirmed that continued reform aimed at improving the enabling environment was essential to growth of the private sector. The principle findings and conclusions of these two reports form the background for the analysis which follows.

Enabling environment problems that continue to restrict private sector expansion fall into a number of categories including: lack of confidence in the banking sector; lack of access to financing, including the lack of a fully functioning capital market; incomplete laws and regulations governing access to credit; lack of business planning, marketing and financial

skills at the firm level; lack of standards and inappropriate policies which govern agricultural exports; and inefficient court procedures regarding the application of commercial law.

3. Results Framework Narrative

A. Transition Hypothesis

Once a favorable market reform environment is firmly in place, combined with appropriate assistance and incentives for key business sectors (small and medium enterprises and exporters), sustained domestic and foreign investment will follow.

B. Critical Assumptions

1. Macroeconomic stability. That the government will continue to pursue prudent monetary and fiscal policies.
2. External events. That Macedonia will not be the victim of additional boycotts or sanctions imposed on Yugoslavia. Additionally, that ethnic tensions do not lead to economic instability.
3. World Bank support. That the World Bank will invest major resources in completing privatization and related corporate governance problems.
4. Political will. That policies in place will continue to be honored by government without backsliding. In the future, that the Government of Macedonia (GOM) will continue to support further banking reform, credit union expansion, development of a capital market, commercial law revision, and agricultural policy revision. That major institutional constraints will not impede efforts to improve judicial implementation of commercial legal procedures.

C. Causal Linkages

Achievement of the Strategic Objective will be measured by:

1. Domestic investment as a percent of GNP and foreign investment in U.S. Dollars.
2. Exports
3. Domestic market share in key product areas.
4. Employment

Success at the strategic objective level will depend upon the achievement of the following principal intermediate results, considered necessary and sufficient to the broader objective.

IR 1.3.1 Improved Financial Management and Transparency.

In order to attract increased domestic and foreign investment, Macedonian firms need to adopt internationally accepted accounting standards in managing their books. Macedonian accounting firms certifying books also must be able to audit using approved international accepted standards. Potential investors want GOM tax policies that are more predictable and transparent. USAID will work with: the Macedonian Government to pass appropriate accounting legislation and regulations; the accounting association (Union of Financial Workers) to develop and uphold internationally accepted standards; and the National University to revise accounting curricula. In the case of tax administration, USAID will work to improve operations of the Public Revenue Office (PRO).

IR 1.3.2 Increased Access to Sources of Financing.

Access to financing is a critical barrier to private sector growth. Credit is limited at all levels while there are too few mechanisms for obtaining working or investment capital. A large level of domestic savings is being held outside of formal savings institutions and is not being made available for stimulating growth.

Banks are reluctant to make business loans, primarily because they are burdened with bad loans, feel inadequately protected under the current legal structure and are operating with wholly inadequate deposit capital as the result of a widespread lack of public confidence in the banking sector. In addition, the GOM has mandated increased capitalization levels for banks by 2001 which also causes them to be conservative in making business loans.

Beyond the banking sector, other institutions such as credit unions need to be developed in order to reach small and medium sized firms, particularly in rural areas. In the slightly longer term, Macedonia will need a fully functioning capital market in order to provide a source of investment for its emerging private sector. Pension reform could serve as a source of income for capital market development if and when the pension system is privatized.

In the financial sector, USAID will work to increase the soundness of banking, including the development of more customer oriented financial services. USAID will also concentrate on furthering legal and regulatory reform associated with banking and investment, in order to develop the proper legal framework for financial transactions. Efforts will continue to develop rural credit unions. Finally, USAID will assist Macedonia to develop a regulated, transparent and liquid securities market.

IR 1.3.3 Legal and Policy Reforms Implemented and Disseminated.

Macedonia's commercial laws, many of which had origins in the socialist past, need to be revised in order to provide a proper legal framework for a market-oriented economy. The process for drafting legislation and putting new laws into force also needs revamping. Private sector expansion is also being hampered by slow and ineffective implementation of

commercial law through the judicial system. The lack of third party enforcement of contracts has a dampening effect on potential investment. Commercial law implementation is slowed because of inadequate information systems for managing court business, unfamiliarity of judges and attorneys with new laws, and inadequate training of new lawyers. USAID plans to work with the World Bank and EU Phare in reform and implementation of commercial law.

IR 1.3.4 Improved Management Systems and Practices Implemented by Private Firms.

At present Macedonia lacks a qualified business consulting services sector. As a consequence, Macedonian businesses, which often lack rudimentary business skills, have no place to turn in order to develop business plans, marketing strategies, financial management systems and other systems essential to the expansion, and sometimes survival, of their enterprises. This problem extends to small, medium and even larger sized firms and includes the newly developing agribusiness sector. Within the agribusiness sector, livestock and fruits and vegetable production and marketing offer good opportunities to fill shortages in the domestic market as well as expand a selective export market. Both subsector markets, however, are constrained by restrictive government policies and barriers, lack of industry grades and standards and self policing mechanisms within the industries. USAID plans to continue to provide technical assistance directed at the firm and farm level to further improve critical management skills. The objective will be to develop a critical mass of firms with improved management skills. Assistance will be provided through the Macedonian Business Resource Center (MBRC), farmer-to-farmer assistance program (VOCA) and the Macedonian Agricultural Marketing Activity (MAMA).

4. Progress to Date

Financial Management and Transparency: USAID funded assistance in financial management (accounting) is a relatively new activity. As part of its ongoing assistance to Macedonian firms, the Macedonian Business Resource Center (MBRC) has introduced western concepts of accounting standards to their clients. In November 1997, USAID funded advisors began to work with the GOM (the Ministry of Finance), with the National Union of Financial Workers (the accounting association), and with the National University. The Ministry of Finance welcomed advisor comment on two key accounting laws. Based on a USAID funded trip to the United States to look at curricula for accounting, the National University has already decided to divide the present school of Economics into two faculties - one for business and the other for economics. Improved accounting standards will be a prominent part of the business school curricula.

In the case of tax collection, USAID funds a U.S. Treasury advisor who has been working with the Public Revenue Office (PRO). The PRO, set up in 1994, is eventually to become the equivalent of the Internal Revenue Service with independent authority covering all aspects of tax administration. At present the PRO covers the audit function only. The U.S. Treasury advisor has been working on compliance issues and on organization of the PRO.

Increased Access to Sources of Financing

USAID's assistance related to increasing access to financing has been at a number of levels. In the banking sector USAID has provided resident advisory assistance since 1994, most recently to the National Bank of Macedonia (NBM) to develop a professional bank supervision function and initiate steps needed for a proactive, risk-based supervisory culture. This has included assistance to NBM on on-site and off-site supervision. The current activity also included assistance to the Macedonian Bank Rehabilitation Agency (BRA) to accomplish liquidation of problem bank assets.

In addition to assistance on banking supervision, USAID also has provided advisor support to commercial banks. USAID has completed diagnostic surveys on five of six mid-sized domestically owned commercial banks (out of twenty) that are expected to survive the new capital deposit requirements set by the government for January 1, 2001. Assistance has included diagnostic surveys of the bank's lending and credit management, organizational structure, asset management, and management information system requirements. USAID advisors have been requested by bank management to assist with the implementation of the diagnostic plans for the five banks whose plans have been approved and expect that implementation of the sixth will follow once its diagnostic survey is completed and approved.

USAID's experience with credit institutions has been mixed. The USAID funded Opportunity International/Moznosti micro-lending facility has disbursed 350 loans at an average loan level of \$5000, with a default rate of only 3 percent. A second branch was recently opened in southeast Macedonian and a third is planned for western Macedonia. The activity is nearly 70 percent complete and plans are for it to reach sustainability in two years time.

USAID's work with the development of credit unions has met with less success. The original approach was to establish savings and credit cooperatives, aimed at drawing out "mattress money" and providing credit to rural residents. This was not successful and the alternative approach was to establish a savings house with a local NGO (FULM) and apply to the Central Bank for a license. This approach ran into difficulty, in October, 1996, with the collapse of TAT, a major savings house. The GOM has been reluctant to start up another savings house at a time when confidence in banks and savings houses is at an all time low. The issue is being addressed at senior levels of the Government.

To date USAID has provided only limited assistance to the development of a capital market in Macedonia through the vehicle of the Financial Services Volunteer Corps (FSVC).

Legal and Policy Reforms Implemented and Disseminated

Starting in 1997, USAID began a commercial law activity managed by CFED to assist the government in reform of commercial laws. The activity began with a revision of the Law on Obligations, a law inherited from the former Yugoslavia which covers contracts, rights and liabilities arising from them, and torts. The draft revision deletes socialist terminology and

revises sections on interest rates and monetary transactions. The draft was submitted to the Ministry of Justice early in 1998 for comment. Technical assistance has begun on new collateral and bankruptcy laws, a central registry for moveable property, and the Macedonian equivalent of a universal commercial code. The process of drafting and approving legislation in Macedonia has been disappointingly slow. There is, at this time, no central point within the government that exercises overall responsibility for commercial legal reform, from the drafting through implementation stages. One encouraging sign, promoted by CFED, is a system by which business representatives and other interest groups are able to comment on draft legislation. It is expected that this system will better enable Parliament to enact laws that reflect the concerns of the businesses and citizens expected to benefit from them.

The USAID funded American Bar Association/Central and Eastern Europe Law Initiative (ABA/CEELI) has been working on reforms in the judicial and legal professions. CEELI has helped establish the Macedonian Judges Association (MJA) and with it has instituted a new judicial training program. CEELI has also helped to institutionalize the MJA as an independent, self-sustaining group that provides a collective voice for Macedonia's judges. This will provide a good base for working in the future on implementation of commercial law in the nation's court system.

Improved Management Systems and Practices Implemented by Private Firms

Assistance is being provided to individual firms and agri-business enterprises under the Farmer-to-Farmer Program (VOCA), Land O' Lakes Macedonian Agribusiness Marketing Activity (MAMA), and the Macedonian Business Resource Center (MBRC). As Macedonia is a country of approximately two million people, its private sector is also relatively small and technical assistance can have a significant impact on improving better business management practices throughout the economy.

Marketing assistance under the MAMA activity began in 1998. VOCA, which has been in Macedonia since 1993, has been providing assistance to agricultural associations and cooperatives, principally the Sheep Breeders Association and the Farmers Association. Initially VOCA provided services to a variety of enterprises addressing specific production level constraints and problems. More recently, VOCA's efforts have been focused more closely on agribusiness activities in close collaboration with other S.O. partners.

The MBRC was established in 1995 to help Macedonian businesses improve their financial management, operations and marketing and to enhance their ability to raise capital and attract joint venture partners. Through the end of December 1997, MBRC had enrolled 170 companies, including agribusiness firms, and had graduated 118. After graduation MBRC tracks companies in terms of progress realized during a two year period including such accomplishments as establishing a business plan, establishing a market plan, etc. Of fifteen strategic indicators of progress, MBRC client firms met targets in eight instances and were behind significantly in only three instances (interestingly all three related to international standards). Given that many of the firms had recently graduated and could not have been

expected to complete targets, MBRC appears to have made significant headway in improving management at the firm level.

5. Program Approaches

Improved Financial Management and Transparency USAID anticipates continuing to provide technical assistance in accounting through 2001. By 2000 USAID expects to bring together assistance in accounting and banking oversight into a combined activity. Among other activities this would likely include the development of an auditing function at the new Macedonian SEC and increased bank auditing (see financial section below).

In the meanwhile USAID plans to provide assistance directed to the adoption of international standards of accounting and auditing (which includes the GOM issuing implementation instructions and the National Union of Financial Workers enforcing standards via a code of ethics, peer review and a system for reviewing complaints). USAID advisors will work to increase the availability of accounting skills by improving the curricula at both the National University and for the in-service training conducted by the National Union of Financial Workers. One critical assumption is that indirect assistance provided through the GOM, the accounting association and the university will suffice to upgrade the accounting/auditing industry's standards. With three of the big six international accounting firms represented in Skopje, this appears to be a reasonable assumption.

With respect to tax assistance, USAID expects to bring about improved operations of the Public Revenue Office (PRO). This will require the PRO to be reorganized along functional lines and have basic automation and a rudimentary MIS system in place. The MIS system would link the PRO and district offices with the data base of the organization so that each office can get quality information in a timely manner. With these conditions achieved, USAID anticipates completing tax assistance in Macedonia by 2001.

Increased Access to Sources of Financing USAID plans to continue advice to the banking sector under present contractual mechanisms through 1999, at which time it proposes to combine financial management, banking supervision and banking operations into a new activity designed to complete reforms in the financial sector. Capital requirements for both banks and savings houses will increase to 21 million denars (about \$384,000) as of January 1, 2001. Currently only three banks meet these capital requirements and only eight to ten institutions are expected to qualify by the deadline (of which USAID is advising six). Banking supervision by the NBM will be critical during this period. By 2004 the Mission expects that the banking sector will generate a profit while public confidence in the sector will increase.

In the case of credit, USAID plans to complete its contribution to the development of rural credit unions by 1999. The critical assumption is that the government will allow the activity to progress; if this is not the case, the activity may have to be cut or curtailed before then.

Development of a capital market will require further design and discussion with the Government before it can become a reality. USAID anticipates that this will constitute a focus of the program, starting in 1999 and continuing until 2004. Preconditions for USAID involvement will include amendment to the companies law and removing restrictions on share transferability, coupled with clear understandings as to how the capital market will be used to complete the sale of residual shares of partially privatized companies. Another precondition will require the GOM to commit to funding the SEC at a level consistent with its responsibilities. Once agreed, USAID's support to capital market development will likely include technical assistance to both the SEC and the Macedonian Stock Exchange (MSE), development of an overall plan of development, training, organization, establishment of computerized data and communications systems and the like.

Legal and Policy Reforms Implemented and Disseminated

With respect to commercial legal reform, USAID plans to work with other donors (the World Bank, EU Phare, etc.) in an effort to improve the process of legislative drafting and enactment by designing agreed procedures for legislative development which are timely and transparent. Assuming that these policy efforts are successful, USAID's next contributions will be to complete the Law of Obligations and the Collateral Law. The Mission envisions that assistance to commercial law revision and implementation should continue through to 2004, working on securities, banking, alternative dispute and bankruptcy and other legislation and application in the courts.

Improved Management Systems and Practices Implemented by Private Firms

By 2001 USAID expects that assistance on improved management procedures at the firm and farm level through MBRC and VOCA will have reached a critical mass and the fledgling consulting industry in Macedonia will have developed sufficient expertise to meet future demand. During the course of the next several years, USAID will be emphasizing developing the industry and, in particular, with respect to the MBRC, will examine the possibilities of privatizing its operations along the lines of the Slovenia model. USAID's last contribution to the MAMA activity will take place in 2001. By that time USAID expects to see food safety reforms for livestock products adopted by the GOM, export and import barriers for livestock lowered, grades and standards adopted by the GOM for livestock products and the livestock industry monitoring industry standards. A critical assumption is that EU Phare will continue to pursue policy changes in the fruit and vegetable subsector.

6. Development Partners

USAID, the World Bank, the IMF, and EU Phare are the principal donors involved in private sector expansion. The Bank and the Fund continue to monitor macroeconomic performance. The Bank's commitment to restructuring recently privatized firms will be critical to expansion of the sector. The Fund and the Bank have collaborated with USAID on tax administration and banking and pension reform. USAID also works closely with the Bank and EU Phare on

commercial legal reform. Finally, EU Phare and USAID plan to collaborate on policy reform in the agricultural sector.

7. Sustainability

In reviewing the conditions considered essential for successful completion of S.O. 1.3 (see section 1 above), USAID believes that some but not all will be in place by 2001. Of these: (a) international audit and accounting standards will be adopted, but the accounting/audit industry will not have fully absorbed nor implemented them; (b) private sector access to financing will be improved, but bank management will continue to be weak, public confidence in the banking sector will still be lacking, the legal framework will not be fully in place, and the capital market will still be in formative stages; (c) a critical mass of private sector firms will have improved management systems; and (d) implementation of commercial law will be improved but judicial management of the docket will still be weak.

USAID believes that three more years of assistance from 2001 to 2004 will be necessary to insure sustainability of S.O. 1.3. The Mission envisions three closely interrelated activities in order to bring this about: (a) financial reform tying together further assistance in banking supervision, operations and financial management (b) legal reform combining further commercial legislative reform and improved court administration of commercial law and (c) capital market development.

STRATEGIC OBJECTIVE 1.3: RESULTS INDICATORS

OBJECTIVE: Accelerated development and growth of the private sector			
APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: SO			
INDICATOR: 1) a) Domestic investment as percent of GDP; b) Foreign investment in USD			
UNIT OF MEASURE: a) Domestic investment as percent of GDP; b) Foreign investment in USD SOURCE: Central Bank stats INDICATOR DESCRIPTION: a) Domestic investment as percent of GDP; b) Foreign investment in USD (new investment per annum, not cumulative) COMMENTS:	YEAR	PLANNED	ACTUAL
	1996		
	1997		a) 17.1% b) 15.78m USD
	1998	a) 18.6% b) 22m USD	
	1999	a) 20.1% b) 30 m USD	
	2000	a) 21.6% b) 42 m USD	
	2001	a) 22.1% b) 52 m USD	
	2002	a) 22.7% b) 64 m USD	

OBJECTIVE: Accelerated development and growth of the private sector			
APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: SO			
INDICATOR: 2) Private Sector Employment			
UNIT OF MEASURE: Persons employed full time. SOURCE: Annual survey of Government Statistics Bureau INDICATOR DESCRIPTION: Number of persons employed full time in the private sector COMMENTS: Expect a further dip in employment in 1998, as redundant workers at formally “privatized” firms are let go. Should rise after that. 1998 will serve as the baseline year. If 1998 employment dips below projected figures, targets will have to be re-set. It is impossible at this point to determine how quickly this problem of redundant workers at newly privatized firms will be dealt with, especially given that it is an election year.	YEAR	PLANNED	ACTUAL
	1996		191,439
	1997		184,292
	1998	175,000	
	1999	180,000	
	2000	190,000	
	2001	200,000	
	2002	210,000	

OBJECTIVE: Accelerated development and growth of the private sector			
APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: SO			
INDICATOR: 3) Domestic Market share in Key Product Areas			
UNIT OF MEASURE: Same as indicator	YEAR	PLANNED	ACTUAL
SOURCE: Land O' Lakes	1996		
INDICATOR DESCRIPTION: Percentage of total consumption produced by domestic producers, for livestock products: cheese, butter, milk, pork, beef, poultry (also processed meat products)	1997		
COMMENTS: Data may not be available or may be unreliable. MAMA staff are investigating and may propose substitute.	1998		
	1999		
	2000		
	2001		
	2002		

OBJECTIVE: Accelerated development and growth of the private sector			
APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: SO			
INDICATOR: 4) Exports: a) total agriculture in USD; b) total livestock in USD			
UNIT OF MEASURE: Same as indicator	YEAR	PLANNED	ACTUAL
SOURCE: Land O' Lakes	1996		
INDICATOR DESCRIPTION:	1997		
COMMENTS: Data may not be available or may be a unreliable. MAMA staff are investigating and may propose substitute.	1998		
	1999		
	2000		
	2001		
	2002		

OBJECTIVE: Accelerated development and growth of the private sector			
APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: IR 1.3.1 Improved Financial Management and Transparency			
INDICATOR: 1) Number of firms audited in accordance with International Standards of Auditing			
UNIT OF MEASURE: Firms SOURCE: Auditing commission of the Accounting Association INDICATOR DESCRIPTION: Number of firms audited per annum in compliance with ISA COMMENTS: Represents largest firms	YEAR	PLANNED	ACTUAL
	1996		
	1997		83
	1998	120	
	1999	165	
	2000	230	
	2001	305	
	2002	390	

OBJECTIVE: Accelerated development and growth of the private sector			
APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: IR 1.3.1 Improved Financial Management and Transparency			
INDICATOR: 2) Percentage of target firms implementing new accounting procedures			
UNIT OF MEASURE: Target firms SOURCE: MBRC INDICATOR DESCRIPTION: Percentge of firms assisted by MBRC that are implementing new accounting procedures; group changes every year COMMENTS: MBRC assists Macedonian firms with 25-500 employees.	YEAR	PLANNED	ACTUAL
	1996		
	1997		50% of 90 firms
	1998	80% of 60 firms	
	1999	ibid.	
	2000	ibid.	
	2001	ibid.	
	2002		

OBJECTIVE: Accelerated development and growth of the private sector			
APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: IR 1.3.1 Improved Financial Management and Transparency			
INDICATOR: Number or percentage of audits reviewed by the SEC			
UNIT OF MEASURE: Audits (basically of firms trading on the stock exchange) SOURCE: SEC INDICATOR DESCRIPTION: SEC should review audits of all firms making first time offerings as well as a percentage of those audits of companies already trading. COMMENTS:	YEAR	PLANNED	ACTUAL
	1996		
	1997		0
	1998		
	1999		
	2000		
	2001	100% firms making new offerings; 10% of audits of firms already trading	
	2002	ibid.	

OBJECTIVE: Accelerated development and growth of the private sector			
APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: IR 1.3.1 Improved Financial Management and Transparency			
INDICATOR: Tax collection - percentage change in total receipts from 1997 base			
UNIT OF MEASURE: Receipts - percentage change SOURCE: Public Revenue Office, Ministry of Finance INDICATOR DESCRIPTION: as in indicator COMMENTS:	YEAR	PLANNED	ACTUAL
	1996		
	1997		0
	1998	30%	
	1999	100%	
	2000		
	2001		
	2002		

OBJECTIVE: Accelerated development and growth of the private sector			
APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: Sub-IR 1.3.1.1 International Standards of Accounting and Auditing Adopted			
INDICATOR: 1) Gov't adopts standards that comply with international practice			
UNIT OF MEASURE: yes/no	YEAR	PLANNED	ACTUAL
SOURCE: Law	1996		
	1997		a) no; b) no
INDICATOR DESCRIPTION: a) accounting standards (yes/no); b) code of ethics (yes/no)	1998	a) yes b) yes	
	1999		
COMMENTS:	2000		
	2001		
	2002		

OBJECTIVE: Accelerated development and growth of the private sector			
APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: Sub-IR 1.3.1.1 International Standards of Accounting and Auditing Adopted			
INDICATOR: Accounting Association a) adopts and b) disseminates a code of ethics; c) adopts enforcement & due process procedures for the ethics code			
UNIT OF MEASURE: yes/no	YEAR	PLANNED	ACTUAL
SOURCE: Accounting Association	1996		
	1997		a) no b) 0 c) no
INDICATOR DESCRIPTION: as in indicator, b) first number represents those trained, second number those accepting the code	1998	a) yes b)200/5000 c) no	
	1999	b)300/1000 c) yes	
COMMENTS:	2000	b)300/1000	
	2001	N/A	
	2002	N/A	

OBJECTIVE: Accelerated development and growth of the private sector			
APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: Sub-IR 1.3.1.1 International Standards of Accounting and Auditing Adopted			
INDICATOR: a) Number of complaints reported; b) percentage of complaints resolved			
UNIT OF MEASURE: Complaints	YEAR	PLANNED	ACTUAL
SOURCE: Accounting Association	1996		
INDICATOR DESCRIPTION: number of complaints made to the accounting association; percentage of complaints made that are resolved	1997		0 a) and b)
COMMENTS: In early years, many “complaints” may actually be inquiries about how the system is to work.	1998	0 a) and b)	
	1999	a) 20 b) 85%	
	2000	a) 30 b) 90%	
	2001	a) 40 b) 90%	
	2002	a) 50 b) 90%	

OBJECTIVE: Accelerated development and growth of the private sector			
APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: Sub-IR 1.3.1.2 Auditing and Accounting Skills Increased			
INDICATOR: 1) Number of accountants trained and tested in International Accounting Standards (IAS)			
UNIT OF MEASURE: Accountants	YEAR	PLANNED	ACTUAL
SOURCE: Accounting Association and the University	1996		
INDICATOR DESCRIPTION: This combines in-service training/testing with university degree training.	1997		0
COMMENTS: The targets are odd because the numbers through 2000 represent in-service training of practicing accountants. These will all be trained by 2000. The university will produce its first graduate and master degree accountants in 2002 (200 B.S. degrees/40 M.S. degrees).	1998	500	
	1999	1000	
	2000	1000	
	2001	N/A	
	2002	240	

OBJECTIVE: Accelerated development and growth of the private sector			
APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: Sub-IR 1.3.1.2 Accounting and Auditing skills Increased			
INDICATOR: 2) Number of declared candidates for certification as auditors			
UNIT OF MEASURE: Candidates for certification	YEAR	PLANNED	ACTUAL
SOURCE: Government or the Accounting Association	1996		
	1997		0
INDICATOR DESCRIPTION: Candidates are formally accepted by the government: they must be trained as accountants or lawyers, be working in an audit firm, and probably at some point be tested. There is a five year apprenticeship required prior to certification.	1998	75	
	1999	125	
	2000	150	
	2001	200	
COMMENTS:	2002	300	

OBJECTIVE: Accelerated development and growth of the private sector			
APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: Sub-IR 1.3.1.3 Improved Operation of the Public Revenue Office			
INDICATOR: Office reorganized on functional lines: a) plan for reorganization accepted; b) reorganization carried out according to the plan			
UNIT OF MEASURE: yes/no for a) and b)	YEAR	PLANNED	ACTUAL
SOURCE: Public Revenue Office, US Treasury	1996		
	1997		a) & b) no
INDICATOR DESCRIPTION: as in indicator	1998	a) yes b) no	
	1999	b) yes	
COMMENTS:	2000		
	2001		
	2002		

OBJECTIVE: Accelerated development and growth of the private sector			
APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: Sub-IR 1.3.1.3 Improved operation of the Public Revenue Office			
INDICATOR: 2) Office computer system is linked to database of organization that does tax payment processing			
UNIT OF MEASURE: yes/no	YEAR	PLANNED	ACTUAL
SOURCE: PRO of the Ministry of Finance, US Treasury	1996		
INDICATOR DESCRIPTION: as in indicator	1997		no
COMMENTS:	1998	yes	
	1999		
	2000		
	2001		
	2002		

OBJECTIVE: Accelerated development and growth of the private sector			
APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: Sub-IR 1.3.1.3 Improved Operation of the Public Revenue Office			
INDICATOR: 3) Percentage of district tax offices able to report accurately on total taxpayer arrears			
UNIT OF MEASURE: district tax offices	YEAR	PLANNED	ACTUAL
SOURCE: PRO, Ministry of Finance	1996		
INDICATOR DESCRIPTION: As in indicator	1997		0
COMMENTS:	1998	30%	
	1999	100%	
	2000		
	2001		
	2002		

OBJECTIVE: Accelerated development and growth of the private sector			
APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: IR 1.3.2 Increased Access to Sources of Financing			
INDICATOR: 1) Change in value of the loan portfolio: a) bank loans in percentage; b) micro-credit and credit union loans in USD			
UNIT OF MEASURE: a) percentage change; b) USD SOURCE: Central Bank, Micro-lending funds INDICATOR DESCRIPTION: 1) a) percentage change in value of the loan portfolio bank loans; b) USD in micro-credit and credit union loans COMMENTS: Higher capitalization requirements for banks plus increased domestic savings plus decrease in unprofitable loans will affect this result.	YEAR	PLANNED	ACTUAL
	1996		b) \$234,362
	1997		a) 45251 billion denars b) \$1.55m
	1998	a) 8 - 10% b) \$1.9m	
	1999	a) 9 - 11% b) \$2.9m	
	2000	a) 9 - 11% b) \$4m	
	2001	a) 10 -12% b) \$5.5m	
	2002	a) 10-12% b) \$5.5m	

OBJECTIVE: Accelerated development and growth of the private sector			
APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: IR 1.3.2 Increased Access to Sources of Financing			
INDICATOR: Market capitalization as percentage of GDP			
UNIT OF MEASURE: Same as indicator SOURCE: INDICATOR DESCRIPTION: Companies in the first two of the three tiers. COMMENTS: Capital markets assessment conducted in autumn 1998 will refine targets. 1998 baseline.	YEAR	PLANNED	ACTUAL
	1996		
	1997		0.03%
	1998	0.05%	
	1999	5%	
	2000	10%	
	2001	20%	
	2002	30%	

OBJECTIVE: Accelerated development and growth of the private sector			
APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: IR 1.3.2 Increased Access to Sources of Financing			
INDICATOR: 3) Total domestic savings			
UNIT OF MEASURE: Percentage change in savings	YEAR	PLANNED	ACTUAL
SOURCE: Research Department, Central Bank	1996		
INDICATOR DESCRIPTION: Percentage of annual real growth in household and business savings, includes deposit and term accounts (in comparison with the previous year)	1997		18.647 billion denars
COMMENTS:	1998	8-12%	
	1999	8-12%	
	2000	8-12%	
	2001	8-12%	
	2002	8-12%	

OBJECTIVE: Accelerated development and growth of the private sector			
APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: Sub-IR 1.3.2.1 Increased Financial Soundness of the Banking System			
INDICATOR: 1) Value of loans in categories C, D and E as a percent of the value of total loans			
UNIT OF MEASURE: per cent	YEAR	PLANNED	ACTUAL
SOURCE: Supervision Department, Central Bank	1996		
INDICATOR DESCRIPTION: disaggregate by type of institution: a) banks and b) credit unions/micro-credit funds. Category C: institution is exposed to the real possibility of loss; Category D: institution can expect a loss but not clear how much; Category E: complete loss, loan is no longer bankable and should be removed from the balance sheet.	1997		a) 36% b) 0.7 %
COMMENTS: Current classification of loans is inadequate so increase in initial years will show increasing honesty; declines toward end of strategy period should show increasing soundness. It generally takes a very long time to resolve banking problems as serious as these. It is expected that the banking system will continue to deteriorate for another 3 - 5 years before it shows substantial improvement.	1998	a) 42% b) 2%	
	1999	a) 48% b) 3%	
	2000	a) 55% b) 3%	
	2001	a) 50% b) 3%	
	2002	a) 45% b) 3%	

OBJECTIVE: Accelerated development and growth of the private sector APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: Sub-IR 1.3.2.1 Increased Financial Soundness of the Banking System			
INDICATOR: 2) Return on equity in banks			
UNIT OF MEASURE: Number out of nine largest banks	YEAR	PLANNED	ACTUAL
SOURCE: Central Bank	1996		
INDICATOR DESCRIPTION: Number out of nine largest banks which indicate return on equity in the 15-18% range, an international standard	1997		0
COMMENTS: In the next few years, bank consolidation is anticipated. If the number of banks declines, the universe and the targets will be adjusted.	1998	0	
	1999	2	
	2000	4	
	2001	5	
	2002	6	

OBJECTIVE: Accelerated development and growth of the private sector APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: Sub-IR 1.3.2.1 Increased Financial Soundness of the Banking System			
INDICATOR: 3) Return on assets			
UNIT OF MEASURE: Nine largest banks	YEAR	PLANNED	ACTUAL
SOURCE: Central Bank	1996		
INDICATOR DESCRIPTION: Number of those nine who indicate an ROA in the 1-3% range, an international standard	1997		2
COMMENTS: In the next few years, bank consolidation is anticipated. If the number of banks declines, the universe and the targets will be adjusted.	1998	3	
	1999	4	
	2000	6	
	2001	7	
	2002	7	

OBJECTIVE: Accelerated development and growth of the private sector			
APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: Sub-IR 1.3.2.2 More Customer-Oriented Financial Services			
INDICATOR: 1) Number of branches of credit union and micro-credit funds			
UNIT OF MEASURE: Same as indicator	YEAR	PLANNED	ACTUAL
SOURCE: OI/"Moznosti" local NGO, WOCCU	1996	1	1
	1997	3	2
INDICATOR DESCRIPTION:	1998	11	
	1999	14	
COMMENTS: Targets presented are a total number of branches from OI, WOCCU , Phare's SME development program, British Know How Fund, Dutch Microlending program.	2000	20	
	2001	26	
	2002	32	

OBJECTIVE: Accelerated development and growth of the private sector			
APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: Sub-IR 1.3.2.2 More Customer-Oriented Financial Services			
INDICATOR: 2) Interest rate spread between deposit and lending rates			
UNIT OF MEASURE: Average of actual deposit and lending rates	YEAR	PLANNED	ACTUAL
SOURCE: Telephone polling	1996		
	1997		23.5%
INDICATOR DESCRIPTION: Nominal rates, spread between deposit and lending rates among nine largest banks	1998	19-21%	
	1999	11-13%	
COMMENTS: Shows competitiveness	2000	5-7%	
	2001	5-7%	
	2002	5-7%	

OBJECTIVE: Accelerated development and growth of the private sector APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: IR 1.3.3 Legal and Policy Reforms Implemented and Disseminated			
INDICATOR: 1) a) Number out of nine laws/policy reforms passed; b) number out of eight laws passed which show conformity to European standards; c) number out of nine laws/policy reforms passed that show signs of implementation			
UNIT OF MEASURE: Laws/reforms <hr/> SOURCE: Miscellaneous - the law, other documents <hr/> INDICATOR DESCRIPTION: See below for the list of laws/reforms. a) and b) are not cumulative, but new each year. <hr/> COMMENTS: Nine laws/reforms are: collateral law; national central registry law; credit union/micro-lending law; ADR law; bankruptcy law; law of obligations; trade companies law; judicial independence. Narrative reporting on which laws passed, etc., will accompany the numbers.	YEAR	PLANNED	ACTUAL
	1996		a) 1 - Law on Trading Companies b) 1-same c) 0
	1997		a) 1 - Law on bankruptcy b) 1-same
	1998	a) 2-collateral law; nat'l central registry law b) 2-same c) 2	
	1999	a) 4 (ADR, jud. indep., cred. union, co. reg. court proc.) b) 4 c) 4	
	2000	a) 1 (oblig.) b) 1 c) 9	

OBJECTIVE: Accelerated development and growth of the private sector APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: IR 1.3.3 Legal and Policy Reforms Implemented and Disseminated			
INDICATOR: 2) a) numbers trained in new laws; b) number of workshops on commercial law held; c) number of public fora or press briefings held			
UNIT OF MEASURE: Participants; workshops, public fora SOURCE: CFED, ABA/CEELI records INDICATOR DESCRIPTION: a) numbers trained, by category (judges, lawyers, others); b) number of workshops on commercial law held by various institutions; c) number of public fora or press briefings held COMMENTS: Targets for ABA/CEELI and CFED, include two simultaneous training conferences held by the Macedonian Business Lawyers Association. Workshops include Round Table Discussions with targeted groups of professionals.	YEAR	PLANNED	ACTUAL
	1996		a) 150 b) 5
	1997		a) 750 b) 5
	1998	a) 1310 b) 37 c) 25-30	
	1999	a) 2180 b) 46 c) 27	
	2000	a) 1460 b) 42 c) 27	
	2001	a) 1210 b) 37-40 c) 20	

OBJECTIVE: Accelerated development and growth of the private sector APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: IR 1.3.3 Legal and Policy Reforms Implemented and Disseminated			
INDICATOR: 3) a) number of court decisions and laws available on internet; b) number of hits on internet data base plus number of clients served with legal information; c) number of brochures and pamphlets on commercial law developed for public			
UNIT OF MEASURE: SOURCE: CFED/ABA/CEELI INDICATOR DESCRIPTION: a) new or added each year; b) number of times internet data base is accessed by users plus number of clients provided with legal information by NICCL program; and c) number of brochures and newsletters developed on commercial law for businesses, individuals and others (i.e., such as making apro se representation in a bankruptcy case) COMMENTS: a) Targets from ABA/CEELI are for Macedonian version of the laws plus court decisions, targeted to internal group, i.e., Macedonian Judges. CFED/NICCL targets are Macedonian laws translated into English and targeted for outside investor or interest group.	YEAR	PLANNED	ACTUAL
	1996		
	1997		
	1998	a) 593 a)CFED baseline b)baseline ABA &CEFED c) 14	
	1999	a) 250 ABA new a) 20/CFED new b) 20% increase c) 14	
	2000	a) 200 ABA new a) 10/CFED b) 10% increase c) 10	
	2001	a) 200 ABA new a) 10/CFED new b) 10% increase c) 10	

OBJECTIVE: Accelerated development and growth of the private sector			
APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: Sub-IR 1.3.3.1 Strengthened Capacity of Key Institutions to Do Training in Commercial law			
INDICATOR: 1) Number of key institutions increasing revenues by at least 5% per annum			
UNIT OF MEASURE: Same as indicator	YEAR	PLANNED	ACTUAL
SOURCE: CFED/ABA/CEELI	1996		
	1997		
INDICATOR DESCRIPTION: List of key institutions include Macedonian Judges Association, Macedonian Business Lawyers Association, Bankruptcy Trustees Association, Alternative Dispute Resolution Association.	1998	4	
	1999	3	
	2000	5	
	2001	5	
COMMENTS:	2002	5	

OBJECTIVE: Accelerated development and growth of the private sector			
APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: Sub-IR 1.3.3.1 Strengthened Capacity of Key Institutions to Do Training in Commercial law			
INDICATOR: 2) Number of trainers trained across key institutions			
UNIT OF MEASURE: Same as indicator	YEAR	PLANNED	ACTUAL
SOURCE: CFAD/ABA/CEELI	1996		
	1997		
INDICATOR DESCRIPTION: Key institutions include Macedonian Judges Association, MBLA, Bankruptcy Trustees Association, Alternative Dispute Resolution Association.	1998	25	
	1999	95	
	2000	85	
	2001	85	
COMMENTS:	2002	85	

OBJECTIVE: Accelerated development and growth of the private sector APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: Sub-IR 1.3.3.1 Strengthened Capacity of Key Institutions to Do Training in Commercial law			
INDICATOR: 3) Number of relevant committees involved with commercial law which are active and have more volunteers involved			
UNIT OF MEASURE: Same as indicator SOURCE: CFED/ABA/CEELI INDICATOR DESCRIPTION: Key institutions include Macedonian Judges Association, MBLA, Bankruptcy Trustees Association, Alternative Dispute Resolution Association. COMMENTS:	YEAR	PLANNED	ACTUAL
	1996		
	1997		
	1998	5	
	1999	11	
	2000	12	
	2001	12	
	2002	12	

OBJECTIVE: Accelerated development and growth of the private sector			
APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: IR 1.3.4 Improved Management Systems and Practices Implemented by Private Firms			
INDICATOR: 1) Percentage of targeted firms which reduce their production costs			
UNIT OF MEASURE: Firms and farmers targeted by VOCA, Land O'Lakes and MBRC SOURCE: a) MBRC; b) Land O'Lakes; c) VOCA. b) (1) sheep farmers; b) (2) milk processors, meat producers & poultry processors INDICATOR DESCRIPTION: a) MBRC; b) Land O'Lakes; c) VOCA. b) (1) sheep farmers; b) (2) milk processors, meat producers & poultry processors COMMENTS: Land O'Lakes pool of assisted groups/farmers is constant for measurement purposes; VOCA pool admits new groups every year and continues to work with some of the old groups; MBRC has a new group every year.	YEAR	PLANNED	ACTUAL
	1996		b) (1) 22% c) 15%
	1997		a) 10% c) 15%
	1998	a) 16.7% of 60 firms b) (1) 30% b) (2) 10%	c) 69%
	1999	a) 35% b) (1) 40% b) (2) 20% c) 30%	
	2000	a) 35% b) (1) 50% b) (2) 25% c) 40	
	2001	a) 35% b) TBD after reevaluation	
	2002	a) 35% b) TBD	

OBJECTIVE: Accelerated development and growth of the private sector APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: IR 1.3.4 Improved Management Systems and Practices Implemented by Private Firms			
INDICATOR: 2) Percentage change in gross sales for targeted firms			
UNIT OF MEASURE: Same as indicator SOURCE: b) Land O'Lakes; c) VOCA. b) (1) sheep farmers; b) (2) milk processors, meat producers & poultry processors INDICATOR DESCRIPTION: b) Land O'Lakes; c) VOCA b) (1) sheep farmers, meat producers & poultry processors COMMENTS: Land O'Lakes pool of assisted groups/farmers is constant for measurement purposes; VOCA pool admits new groups every year and continues to work with some of the old groups. MBRC will not report on this indicator because it focuses on profitability so there is no a).	YEAR	PLANNED	ACTUAL
	1996		b) (1) 27-30% b) (2) 47.8% c) 27%
	1997		c) 43%
	1998	b) (1) 40% b) (2) 10% c) 70%	c) 73%
	1999	b) (1) 48% b) (2) 25% c) 70%	
	2000	b) (1) 56% b) (2) 30% c) 70%	
	2001	b) (1) 68% b) (2) TBD	
	2002	b) (1) TBD b) (2) TBD	

OBJECTIVE: Accelerated development and growth of the private sector			
APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: IR 1.3.4 Improved Management Systems and Practices Implemented by Private Firms			
INDICATOR: 3) Percentage of targeted firms showing an increase in net operating income			
UNIT OF MEASURE: Same as indicator SOURCE: a) MBRC; b) Land O'Lakes; c) VOCA. b) (1) sheep farmers; b) (2) milk processors, meat producers & poultry processors INDICATOR DESCRIPTION: a) MBRC; b) Land O'Lakes; c) VOCA. b) (1) sheep farmers, meat producers & poultry processors COMMENTS: Land O'Lakes pool of assisted groups/farmers is constant for measurement purposes; VOCA pool admits new groups every year and continues to work with some of the old groups; MBRC has a new group every year.	YEAR	PLANNED	ACTUAL
	1996		b) (2) 100% c) 37%
	1997		a) 61.7% c) 57%
	1998	a) 63% b) (2) 10% c) 50%	c) 58%
	1999	a) 65% b) (2) 15% c) 50%	
	2000	a) 70% b) (2) 20% c) 55%	
	2001	a) 80% b) (2) TBD	
	2002	b) (2) TBD	

OBJECTIVE: Accelerated development and growth of the private sector APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: IR 1.3.4 Improved Management Systems and Practices Implemented by Private Firms			
INDICATOR: 4) Percentage of targeted firms making new capital investments			
UNIT OF MEASURE: Same as indicator SOURCE: a) MBRC; b) Land O'Lakes; c) VOCA. b) (1) sheep farmers; b) (2) milk processors, meat producers & poultry processors INDICATOR DESCRIPTION: a) MBRC; b) Land O'Lakes; c) VOCA. b) (1) sheep farmers; b) (2) milk processors, meat producers & poultry processors COMMENTS: Land O'Lakes pool of assisted groups/farmers is constant for measurement purposes; VOCA pool admits new groups every year and continues to work with some of the old groups; MBRC has a new group every year.	YEAR	PLANNED	ACTUAL
	1996		b) (1) 22% b) (2) c) 28%
	1997		a) 12% c) 44%
	1998	a) 33% b) (1) 22% b) (2) 10% c) 35%	
	1999	a) 50% b) (1) 33% b) (2) 20% c) 35%	
	2000	a) 50% b) (1) 44% b) (2) 30% c) 35%	
	2001	a) 50% b) (1) 55% b) (2) TBD c) 35%	
	2002	a) 50% b) (1) TBD b) (2) TBD	

OBJECTIVE: Accelerated development and growth of the private sector			
APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: Sub-IR 1.3.4.1 More Effective Agriculture Association(s)			
INDICATOR: 1) Number of dues-paying members			
UNIT OF MEASURE: Members	YEAR	PLANNED	ACTUAL
SOURCE: Association records	1996		
INDICATOR DESCRIPTION: Number of members who pay full dues owed, by association or totaled across associations if more than one entity is involved	1997		
COMMENTS: Targets are only from Land O'Lakes.	1998	25	
	1999	50	
	2000	150	
	2001	TBD	
	2002	TBD	

OBJECTIVE: Accelerated development and growth of the private sector			
APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: Sub-IR 1.3.4.1 More Effective Agriculture Association(s)			
INDICATOR: 2) Percentage of association costs covered by income			
UNIT OF MEASURE: Same as indicator	YEAR	PLANNED	ACTUAL
SOURCE: Association records	1996		
INDICATOR DESCRIPTION: Proportion of total costs covered by income from members and other sources: MAMA - for 2 associations in 1998; 5 assoc. in 1999; 10 assoc. in 2000.	1997		
COMMENTS:	1998	10%	
	1999	20%	
	2000	25%	
	2001	TBD	
	2002	TBD	

OBJECTIVE: Accelerated development and growth of the private sector			
APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: Sub-IR 1.3.4.2 Agriculture Policy Reforms Adopted			
INDICATOR: 1) Food safety standards reformed by government			
UNIT OF MEASURE: a) number for dairy products; b) number for meat products SOURCE: Government data INDICATOR DESCRIPTION: List of key reforms, whether a) made; and b) implemented COMMENTS: a) and b) zero tolerance for antibiotic residue; a) and b) acceptable shelf life of product; a) and b) zero tolerance for added foreign substances	YEAR	PLANNED	ACTUAL
	1996		
	1997		
	1998	0	
	1999	a) and b) 3	
	2000	a) and b) 8	
	2001	TBD	
	2002	TBD	

OBJECTIVE: Accelerated development and growth of the private sector			
APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: Sub-IR 1.3.4.2 Agriculture Policy Reforms Adopted			
INDICATOR: 2) Export/Import barriers lowered			
UNIT OF MEASURE: Number of barriers removed for processed milk products and processed meat products SOURCE: Government data INDICATOR DESCRIPTION: 1999: reform export quota policy to allow greater liberalization; establish international standardization for sheep cheese. 2000: establish international grades for carcasses: international standards for yogurt; international inspection service for exports and imports. COMMENTS:	YEAR	PLANNED	ACTUAL
	1996		
	1997		
	1998	0	
	1999	2	
	2000	3	
	2001	TBD	
	2002	TBD	

OBJECTIVE: Accelerated development and growth of the private sector			
APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: Sub-IR 1.3.4.2 Agriculture Policy Reforms Adopted			
INDICATOR: 3) Grades and standards adopted by the government			
UNIT OF MEASURE: Same as indicator	YEAR	PLANNED	ACTUAL
SOURCE: Government data	1996		
	1997		
INDICATOR DESCRIPTION: Number of products or commodities to which grades and standards are applied	1998	5	
	1999	10	
COMMENTS:	2000	25	
	2001	TBD	
	2002	TBD	

OBJECTIVE: Accelerated development and growth of the private sector			
APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: Sub-IR 1.3.4.2 Agriculture Policy Reforms Adopted			
INDICATOR: 4) Livestock industry develops standards			
UNIT OF MEASURE: Same as indicator	YEAR	PLANNED	ACTUAL
SOURCE: Published standards	1996		
	1997		
INDICATOR DESCRIPTION: a) number of processed products; b) number of raw products: adequate standards developed and disseminated and monitoring and enforcement conducted	1998	a) 6 b) 4	
	1999	a) 10 b) 10	
COMMENTS:	2000	a) 15 b) 5	
	2001	TBD	
	2002	TBD	

1. Statement of the Strategic Objective

SO 2.1 "Citizens Increase their Participation in Political and Economic Decision Making"

Vital to Macedonia's successful transition to a free market economy and democratic government is a flourishing and well informed civil society. Macedonia needs non-government civil society organizations that engage in creative problem solving and advocacy to encourage active citizen participation and improved governance. In addition, an active citizenry can help relieve the destructive effects of inter-ethnic intolerance.

This strategic objective targets the strengthening of political parties and civil society groups, both of which serve as vital channels for information dissemination, interest aggregation, and representation. They are the key mechanisms through which and by which citizens can identify their interests, negotiate conflicts and have an impact on government policy. Given the weaknesses of political society in Macedonia and internal ethnic tensions, work with civil society offers alternative channels for expressing points of view and vice-versa.

USAID will consider this strategic objective achieved when: (a) a core group of NGOs have improved democratic management, are on a firmer financial footing and can advocate and educate effectively at both a local and national level; and (b) core political parties have strengthened organization, representation in Parliament (in quality not necessarily in quantity), and are able to conduct more effective election campaigns.

2. Problem Analysis

USAID's development of the strategy for S.O. 2.1 has been strengthened by a recently completed NGO sector review by ENI/DGSR. The principal findings and conclusions of that report are reflected in the analysis which follows.

A. NGO Sector: The exact size of the NGO sector in Macedonia is not known, however, its universe is estimated to be about 5,000 NGOs of which perhaps 250-500 are active and viable. They include a wide variety of organizations including social clubs and interest groups, some with relatively narrow foci. Many were formed under the former Yugoslavian regime and tend by nature to defer to government. Within the NGO universe, perhaps those with the most potential are the more civic-oriented entities such as environmental, women's, humanitarian and youth groups. The vast majority of these are grass roots in nature and have come together to work on problems in their respective communities. Typically, a number of organizations can be found in an individual community with parallel interests, reflecting the ethnic and religious separations in Macedonian society. There are few national level NGOs or organizations that advocate and/or promote public awareness at that level.

From a management standpoint the vast majority of NGOs are institutionally weak. They often are creations of strong-willed founders and frequently are not democratically organized.

Few have professional management; most rely on volunteers to carry out functions. As a result, staff turnover is frequent, causing inefficiencies and requiring almost continuous retraining.

Financially NGO's are equally weak. NGO financial records are rudimentary. Most of the more "activist" survive on grants provided by the donor community although some raise limited income in their communities by providing services or conducting the Macedonian equivalent of bake sales. Some also receive in-kind assistance from the government in the form of office space, use of office equipment, and/or work performed by employees on government time.

NGO relationships with government are complex. Many within government still do not appreciate the potential which independent NGOs offer, and, given Macedonia's history, consider them as extensions of the state. Within the NGO community some fear still exists about local and national government reaction to their activities, although no instance of direct harassment has taken place in several years. On the other hand, as mentioned above, government often contributes to NGO activities. The present law which governs NGOs contains a number of gaps, ambiguities, and restrictive provisions and requires revision. A new draft law, favored by the NGOs, is now in circulation.

In short, the NGO movement in Macedonia is in nascent stages. Given the small size of the country, the large number of active organizations indicates vibrancy. However, it is essentially locally based, parochial in interest, poorly managed, overly dependent on donor grants and has not yet begun to realize its potential for national level advocacy and public awareness.

B. Political Parties: Macedonia has a parliamentary form of government and is currently led by a multi-ethnic coalition government. The fate of the coalition government, including its ethnic composition, is in doubt with elections scheduled for the coming fall. There are presently 32 active parties but only a handful have any real base of support or the possibility of establishing one. As a result, it is expected that considerable fall out will take place in the near future with the number of parties greatly reduced.

At this point political parties, even the larger, more established ones, have only rudimentary organization and lack basic skills to respond to constituent needs, identify and frame issues, articulate priorities, develop voter support, mount media campaigns, keep track of parliamentary agenda and any number of other functions which are the lifeblood of established parties in developed democracies.

Democratic development is further complicated by representational issues facing the government. In an effort to respond to ethnic concerns about adequate representation in Parliament, a new election law has been passed. It will change the present electoral system from a purely majoritarian system to a mixed majoritarian-PR system with 85 seats allocated by majoritarian means and 35 by proportional representation. Albanian parties would have

preferred a completely PR system because there are pockets of Albanian settlement in Macedonian majority areas that will end up under- or unrepresented. The basic elements of the new proposed system, however, conform with European standards.

Changes in electoral systems in divided societies such as Macedonia can play a key role in establishing incentives for either moderation or extremism on ethnic issues. It is too soon to know which will be the case in Macedonia. Parties have done some outbidding on ethnic issues, fomenting tension rather than calming it. However, on the other hand, some parties took part in a round table to try to calm tensions. From the standpoint of democratic development, it is essential that more be done to focus parties on bread and butter constituent issues rather than ethnic politics.

Given the number of parties and the number of PR seats in the parliament, there is likely to be a need to establish governing coalitions if a majority is to be put together. This will establish some incentive for moderation after the election, depending on how votes are transformed into seats. It is likely that the Macedonian party which pulled out of the 1994 elections will contest them in full in the upcoming election. As a consequence a sizable number of the new members of Parliament may be without any political experience.

3. Results Framework Narrative

A. Transition Hypothesis

Strengthening a critical mass of Macedonia's NGOs and political parties will help reduce ethnic tensions and lead to a stronger, more transparent and responsive democracy by increasing citizens' participation and awareness. Building local capacities will strengthen NGO organizations, some of which will develop into intermediate support organizations for their respective sectors. Assisting political parties to become more organized and constituent focussed will help to resolve issues and decrease counterproductive "ethnic" politics.

B. Critical Assumptions

1. Stability. A prerequisite for the strengthening of civil society is continuing political and economic stability in the country.
2. Political will. The GOM will encourage the further involvement of NGOs in decision-making processes and not impede the NGO movement's growth.
3. External events. Ethnic tensions in Kosovo do not spill over into Macedonia.
4. Resources. USAID is the largest donor in the NGO sector. It is assumed that USAID resources are maintained at a significant level for the next five years in order to develop a sound basis for sustainability. It is also assumed that other donor contributions to the sector will increase.

C. Causal Linkages

Achievement of the Strategic Objective will be measured by:

1. Improved ratings in the NGO Sustainability Index established by ENI/DG
2. Increased party membership for target parties.
3. Increased number of youth and female candidates for target parties.
4. Increased number of volunteers/activists by target party.

Success at the strategic objective level will depend upon the achievement of the following principal intermediate results considered necessary and sufficient to the broader objective.

IR 2.1.1 Improved Financial Viability of NGOs

NGOs in Macedonia lack financial viability. Many rely on donor support and/or volunteer staff to function. While the state of philanthropy in Macedonia is in its infancy, NGO's lack the ability to attract financial support in part because they are not able to keep basic books and maintain transparency of financial operations. USAID will work with target NGO's to improve financial operations and their transparency and will begin to introduce fundraising and income generation services. Current law makes it difficult for NGOs to initiate income generating activities without losing NGO status. USAID will continue to work with the International Center for Non-Profit Law (ICNL) to effect necessary changes in the tax law.

IR 2.1.2 Improved and More Democratic NGO Management

Management skills of NGOs are also generally weak. Leadership is often autocratic and lacks openness. NGO's are also lacking skills in articulating vision, planning, project development, and public relations. Working with selected NGOs, USAID will seek to improve NGO planning and management systems including consultation with customers, members, volunteers and other stakeholders. Efforts will be extended to have NGOs establish governing boards and apply democratic by-laws.

IR 2.1.3 More Effective Advocacy by NGOs

At present few NGOs, with the exception of environmental groups, undertake any advocacy or public awareness campaigns, either on a local or national level. In part this reflects a carryover from the authoritarian past but many NGOs don't have the organization or skills to undertake advocacy. Another factor is cultural pressure which, particularly in the case of women's groups, tends to discourage activist roles.

As a result there is little public awareness regarding NGO's work. At the local level, an increasing number of NGOs have developed. This growth may create an enhanced public image for them, particularly those able to deliver the necessary basic services which government can no longer provide. Increased transparency and accountability within NGOs would help to promote their public image and make the public more aware of what NGOs are doing in communities.

USAID will work with selected NGOs to strengthen linkages among local organizations and between NGOs and local government (also a focus of S.O. 2.3 see below) to carry out activities supported by the public. The theory is that citizen groups which unite in grassroots organizations will be more effective in influencing public policy decisions when they later form advocacy coalitions at a national level. This was the case when Catholic Relief Services (CRS) formed Parent's Councils which subsequently coalesced into the National Parents' Association.

Citizen participation in decision-making in Macedonia will be a new and -- for some -- radical shift in the paradigm of governance. Mechanisms for such participation have to be improved or created to ensure the institutionalized guarantee of such participation. Mechanisms can be fostered on either the demand (NGO) or supply (governance) side. Governmental mechanisms may include a mandatory 90 day comment period on draft or white paper legislation while NGO mechanisms might include public fora to debate key issues. USAID will work with governance institutions (SO 2.3) and NGOs to identify and formalize the participatory mechanisms appropriate to Macedonia.

IR 2.1.4 Increased Effectiveness of Party Election Campaigns

In the previous one party, socialist state, election campaigns amounted to an endorsement of candidates chosen by the state, with no effective or legitimate opposition. As a result there is little relevant experience from which new political parties can draw to develop a coherent model of campaigning. Parties need to address the electorate in a manner which is better organized and more effective for attracting support and critical votes.

USAID and its partner NDI will work with four of the largest parties to develop campaign structures, door-to-door campaigns, and the creation and adoption of campaign platforms which address key social, political and economic issues. They will also seek to establish local party branches with local party election plans, media targeting plans, and poll watchers and get-out-the-vote drives on election day. At the same time, USAID and NDI plan to encourage adoption and application of election laws and procedures that meet democratic standards, and raise public confidence in the electoral process.

IR 2.1.5 Strengthened Party Representation in Parliament

Parliamentarian loyalty in Macedonia has historically been to the party rather than to the constituency that elected the MP. This is because the party nominates candidates for

constituencies rather than the other way around. The expected fallout in political parties and the upcoming elections may result in a situation where constituent needs will have to be given closer attention. USAID and NDI plan to work in parliament to help parties to organize themselves to represent constituent interests better and to help parliament work more effectively.

IR 2.1.6 Strengthened Party Organization

The intent of this intermediate result is to improve internal party organization and particularly to improve ties between local party branches and the national party. Historically party issues are those chosen by the party elite, often disconnected from real issues affecting the common party member and voter. USAID and NDI plan to encourage an increase in participation of local party members in the national executives of parties and, at the same time, stimulate increased attention to local branches by the party executives.

4. Progress to Date

Improved Financial Viability of NGOs

USAID partners have tailored their assistance to meet perceived needs of their client NGOs. Freedom House (FH), in collaboration with the Institute for Sustainable Communities (ISC), has stationed a volunteer in Macedonia to develop NGO fundraising skills. As a first step, the volunteer undertook a fundraising and philanthropy assessment for southern tier countries, including Macedonia. The assessment will be used to provide background information to assist in the design of a train-the-trainer fundraising and philanthropy workshop being organized by ISC for NGO trainers from the four southern tier countries.

Women's NGOs assisted by Delphi are newer and less developed organizations than those supported by ISC. As a result, a large share of the Delphi funding was provided to individual NGOs for capacity building. Most groups had no previous experience in grant writing, budgeting, or financial reporting. Delphi's local staff provided extensive technical assistance to strengthen these capacities. However, self-confidence and competence in management still remain rudimentary. At the same time, Delphi is introducing the concepts of cost-sharing and income generation to these NGOs; however, progress is likely to be slow as will be achievement of financial sustainability.

Improved and More Democratic NGO Management

Management skills are emphasized by ISC in its basic NGO training program in Macedonia, including modules on strategic planning, mission statements, project management, fundraising and project budgeting. In addition, ISC provides some follow-up training to address problems once initial training is complete. However, because those receiving the training are predominately volunteers rather than professional full-time NGO employees, turnover is high, requiring many more to be trained than would otherwise be the case. This

"wastage" will be a reality until such time as a critical mass of NGOs have stable, professional staffs to carry out the day-to-day affairs of organizations.

ISC is strengthening management in NGOs, particularly in the environmental sector. In addition to providing grants to 70 local NGOs amounting to over \$300,000 over the past three years, it has strengthened the capacity of some 150 NGOs through its training program. Over the past one and a half years, training has been provided by a 20-member Local Training Team composed of in-country trainers. Discussions have been initiated with the team about the desirability of "spinning it off" so that it can provide training to a wider group of local NGOs, ultimately on a sustainable basis.

Delphi is working to develop the management skills of women's NGOs in Macedonia, most of them local. It works individually with NGOs to develop the proposals it finances and has used ISC to provide some basic skills training to its clients as well. Delphi draws on local expertise wherever possible, whether Macedonian or from the other ex-Yugoslavian republics, thereby building up indigenous capacity in the region. It has a mailing network of about 50 women's NGOs but at present works directly with fewer than that.

Freedom House has also supported strengthening of local NGO management. It has sent a number of Macedonian environmentalists to the US and other CEE countries under the U.S. Internship and the Regional Exchange Programs. Many of those participating are key members of local NGOs in the environmental movement, including a member of the Ecologist Movement of Macedonia who is coordinating the execution of the National Environmental Action Plan with the World Bank.

More Effective Advocacy by NGOs

Because of the incipient nature of development and low level of confidence in much of the NGO sector, advocacy is not a principal area of activity by most NGOs in Macedonia. However, there are instances of advocacy at both the local and national level by indigenous NGOs. Environmental NGOs have had some success at the policy level. Based on a proposal presented to the central government on the protection of a region on Prespa Lake, the central government requested that the organization assume responsibility for the undertaking. Another NGO has been asked to draft the law on the protection of the limestone caves in the country. Others worked on the National Environmental Action Plan (NEAP) and the Local Environmental Action Plans which should lead to public policy changes as well.

The Macedonian Center for International Cooperation (MCIC) has been instrumental in getting the views of the NGO sector before government and the public. It has worked with government and Skopje law faculty on the new NGO registration law, facilitating round-tables to discuss the draft law and helping to forge a consensus on the final version. An NGO in Tetovo, focused on youth and inter-ethnic tolerance, has been successful in advocating the need for a community based program to improve inter-ethnic tolerance and gaining the support of the local education and municipal officials and the private sector.

CRS worked in over 60 ethnically diverse primary schools forming Parents' Councils to handle local educational issues common to all children regardless of ethnicity. As a result the Ministry of Education agreed to establish a National Parents' Association to advise the Ministry on educational issues.

Cooperation among NGOs, however, appears to be limited, constrained by ethnic issues and the lack of a sense of community within the sector. While the NGO sector does receive coverage in the media (both in the press and on TV), it does not appear to be using the media to advocate on issues, reflecting the sector's limited role in advocacy in general.

Advocacy training is an important element of ISC's basic training program. This training, coupled with the greater maturity of most environmental NGOs, has contributed to a more active advocacy role by some of its "clients". It provided grants to NGOs such as the Roma Women's Association for the preparation of four short television "spots" which are regularly aired on two local Roma stations. These spots encourage responsible behavior to protect natural resources and an overall concern for the environment. The Youth Council in Kumanovo received funding from ISC and local donations in order to produce a television program designed to increase awareness about environmental problems.

Women's NGOs are generally behind in their development when compared to other sectors of the community. General questions of organization, funding, and community-based issues consume much of their energy. However, Delphi has developed women advocacy trainers who have trained 45 local women in this area. Fifteen local women have participated in a regional advocacy conference focusing on advocacy for women's health, violence prevention, women in politics and governance - key issues among local women. These efforts have led to a number of initial advocacy efforts including dissemination of information on violence against women. Delphi has also sought to link NGOs with media and public outreach. For example, the Organization of Women of Kumanovo received a grant to increase women's issues coverage on private local television. In 1997 Delphi focused its resources on identifying new leaders and issue-based networks that were willing to work in collaboration with other NGOs, public officials and the media in support of specific issue-based action initiatives

Increased Effectiveness of Party Election Campaigns

Since January, 1997, the National Democratic Institute (NDI) has been working with the political party leaders and activists from the Liberal Democratic Party (LDP), the Internal Macedonian Revolutionary Organizations-Democratic Party for Macedonia Unity (VMRO-DPMNE), the Party for Democratic Prosperity (PDP), and the Democratic Party of the Albanians (DPA). These four are the largest parties, with the greatest number of elected officials and the highest membership lists. To date, the local party branches aided in the targeted cities have been involved in projects such as creating a membership database, devising communications and recruitment strategies, and organizing a party structure for election time, now tentatively set for October 15 and 16, 1998.

The VMRO-DPMNE branch in Gostivar created and distributed to 3,000 households a citizen survey focussed on economic issues in the community. VMRO-DPMNE is a Slav-Macedonian party and Gostivar is a predominantly Albanian community; however, the party sought citizen input on issues that affect everyone, regardless of ethnicity. Subsequently, the party leadership decided to implement the project nationwide.

NDI has helped targeted parties formalize their election campaign structures. Typically, in the past, the candidate was solely responsible for all aspects of the campaign and had no staff to draw upon for support. NDI introduced the concept of an election campaign staff, with clearly defined roles and responsibilities. NDI worked with the headquarters of each of the four parties to develop an election organizational chart, identify staff members for each position, and review responsibilities for each position.

Strengthened Party Representation in Parliament

Activities in regard to this issue have not yet begun. Activities are scheduled to begin following the parliamentary elections in October, 1998, when the new MPs will be seated.

Strengthened Party Organization

NDI has been working with the four target parties on strengthened party organization. Following NDI's media training in September, 1997, the PDP branch in Gostivar created a communications strategy and appointed a spokesperson to handle press relations, issue regular press releases, and assemble a national communications committee.

In an effort to increase internal party communication and organization, the LDP began publishing a monthly national newsletter that details recent party initiatives and activities. The LDP also created a local branch manual that outlines the party's organizational structure and operational procedures to be implemented at the local level.

5. Program Approaches

Improved Financial Viability of NGOs

The financial viability of the NGO movement is still precarious because of a weak economy, low per capita income and high unemployment which constrain the development of governmental support and local philanthropy. Thus, donor funding will be the main source of support for a number of years to come. USAID's role should be to assist core NGOs to acquire basic financial skills, begin to develop NGO fundraising and revenue generating concepts (while working with government to provide the appropriate legal framework for those activities) and encourage other donor financing in the sector. When these basic conditions are met, USAID can consider its contribution complete.

Improved and More Democratic NGO Management

Initially USAID and its partners will concentrate on improving management and democratic governance at the local level using the basic approaches already developed. The type of management training will continue to depend on the evolution of the NGOs themselves, with environmental groups generally being out in front of other newer groups. USAID will encourage its partners to use each others services whenever appropriate.

There will be a continuing need for basic as well as some tailored training for the NGO sector. Given the limited capacity in the country to provide this training (and technical assistance), the idea of creating an indigenous NGO Training Institute by spinning off the ISC Training Unit will need to be explored. In addition, providing support to the MCIC Program of Civic Society could also fortify that organization's training capacity as well as its ability to provide technical assistance to the NGO community as well.

In the longer term, USAID will need to turn its attention to developing the management skills of new emerging national level NGOs. Management training in this instance will need to focus on advocacy and public information skills among others.

More Effective Advocacy by NGOs

Limited advocacy is taking place at the national level, with the exception of environmental NGOs. In the short-term the emphasis should be on development of advocacy at the local level (in conjunction with S.O. 2.3). NGO's work at the local level should encourage cooperation of parallel groups and help to promote a common understanding of NGO's role in society. As an example, CRS will assist the GOM and the Parent's Councils to introduce civic education into the fourth, seventh and eighth grade levels in Macedonia's public schools. Women, youth, and environmental groups offer the best prospects for bridging ethnic gaps in NGO development.

In the longer term USAID and its partners will work to develop advocacy and public awareness NGOs at the national level. Again women, youth and environment offer the best prospects for national level advocacy.

Increased Effectiveness of Party Election Campaigns

USAID and NDI will continue to work with the four target parties during the period leading to the Parliamentary elections in October to ensure that their campaign effectiveness continues to improve. As a separate issue, the next presidential election is scheduled for 1999. NDI will continue to work with parties on their presidential campaign strategy and tactics.

Strengthened Party Representation in Parliament

USAID and NDI will encourage parties to have more frequent meetings with their electoral constituency to ensure that MPs are aware of and responsive to constituent needs and issues. In addition, the parties will be encouraged to take their election campaign platforms (or manifestos) and transform those platforms into Parliamentary agendas for action. These agendas will provide an opportunity to improve the focus of the parties on priorities and enhance their abilities to build effective working coalitions.

Strengthened Party Organization

USAID's and NDI's approach will be to provide avenues for two way communication between the party headquarters and the local branch offices and memberships. Parties will be encouraged to communicate with local branches (i.e., newsletters, memos, letters, visits, etc) on a frequent basis. In addition, parties will be encouraged to open executive boards to local party branch membership. Another element of center-branch communication will be membership drives whereby both central party and branches work together to strengthen their representation and financial base. Finally, parties will be encouraged to open more local branch organizations and offices in districts where they are currently unrepresented.

6. Development Partners

Support for the NGO sector comes from USAID, the Dutch and some limited support from the British. Thus far little support has been forthcoming from EU-PHARE, the World Bank, and the other bilateral assistance programs. Part of USAID's role in the future should be to encourage other donor support since donor support will be needed for a number of years until the NGO community is able to rely on generating its own support.

7. Sustainability

Looking at the two basic components of the S.O. (NGO development and strengthened political parties), the latter should be ready for graduation much sooner than the former. USAID believes that basic support to political parties can be completed by 2001. NGO development, however, should require more time because of the nascent quality of their organization, the underdeveloped state of philanthropy in Macedonia and the lack of other donor support for their efforts. In addition, development of national level advocacy groups will require more time. With several years of further effort and by encouraging other donor contributions, USAID should be able to get the NGO community to a viable footing, if not a position of complete sustainability.

STRATEGIC OBJECTIVE 2.1: RESULTS INDICATORS

OBJECTIVE: 2.1 Citizens increase their participation in political and economic decision-making			
APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: SO			
INDICATOR: 1) Number of national & local policy decisions affected by NGOs			
UNIT OF MEASURE: Decisions	YEAR	PLANNED	ACTUAL
SOURCE: ISC, Delphi, CRS	1996		
INDICATOR DESCRIPTION: NGOs need to be able to demonstrate that they 1) actively advocated for a decision; and 2) the decision bore some relationship to their position. Target groups include those assisted by Delphi, ISC, and CRS	1997		2
COMMENTS: Current targets are for Delphi and ISC alone. ISC ends in March, 2000. Delphi works with 30 women's groups, ISC with 28-33 NGOs, and CRS with the national parent's association as well as 60 local parents' councils. ISC is converting from one group of assisted NGOs in 1997 to a new one in 1998. ISC is currently in the process of soliciting applications for assistance from the Macedonia NGO community. Once final determination of NGOs to receive assistance is made, a baseline survey will be performed. Planned targets, in this and other indicators into which ISC will offer input, may change upon review of the results of the survey. This is the pool of target groups for all three organizations and applies to other indicators measuring target NGOs.	1998	9-10	
	1999	21-22	
	2000	22-23	
	2001	22-23	
	2002	22-23	

OBJECTIVE: Citizens increase their participation in political and economic decision-making			
APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: SO			
INDICATOR: 2) Number of civic issue campaigns that a) involve 3 or more NGOs in active promotion; or b) involve NGOs of different ethnic groups; or c) address inter-ethnic concerns			
UNIT OF MEASURE: A civic issue campaign is a joint effort or initiative on a common theme.	YEAR	PLANNED	ACTUAL
SOURCE: CRS, ISC, Delphi	1996 (Basel.)		
INDICATOR DESCRIPTION: Will count as long as at least 1 target group is involved. A civic issue campaign is a joint effort or initiative on a common theme. c) is most relevant to CRS.	1997 (Basel.) 3		23
COMMENTS: ISC ends in March, 2000. Baseline is higher than targets because ISC target group in 1997 was larger than it will be beginning in 1998.	1998	17-19	
	1999	19-21	
	2000	35-37	
	2001	29-30	
	2002	32-33	

OBJECTIVE: Citizens increase their participation in political and economic decision-making APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: SO			
INDICATOR: 3) Number target NGOs cooperating with NGOs of another ethnic group on a civic action program			
UNIT OF MEASURE: Number--same as indicator	YEAR	PLANNED	ACTUAL
SOURCE: ISC, CRS, Delphi	1996		
INDICATOR DESCRIPTION: At least one of the NGOs cooperating with another NGO should be a target NGO. Cooperation can include sharing information, joint planning or joint action.	1997		8
	1998	11-13	
	1999	11-13	
	2000	40-44	
	2001	49-52	
COMMENTS: ISC funding is due to end in March, 2000. It is not clear if it will be possible to continue collecting data from their assisted groups.	2002	59-62	

OBJECTIVE: Citizens increase their participation in political and economic decision-making APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: SO			
INDICATOR: 4) Percentage of students targeted by civic education program who demonstrate basic understanding of democratic principles			
UNIT OF MEASURE: Percentage of students	YEAR	PLANNED	ACTUAL
SOURCE: Min of Education	1996		
INDICATOR DESCRIPTION: Disaggregated by 4th, 7th and 8th grades and by gender in each of the target grades. Students who obtain at least a locally approved passing grade on the test.	1997		
	1998	n/a	
	1999	n/a	
	2000	50% for each grade	
	2001	60% for each grade	
COMMENTS: The assumption underlying this indicator is that a greater awareness of democratic principles leads to a higher level of inter-ethnic tolerance. Home environment is the greatest determinant of ethnic attitude. For this reason, parents and school Parents' Councils will be heavily involved in this activity.	2002	70% for each grade	

OBJECTIVE: Citizens increase their participation in political and economic decision-making APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: SO			
INDICATOR: 5) Improvement in NGO Sustainability Index score for target NGOs as a group.			
UNIT OF MEASURE: NGO Sustainability Index as developed by ENI/DGSR SOURCE: SO 2.1 Team assessment INDICATOR DESCRIPTION: The NGO Sustainability Index focuses on five key aspects of the NGO sector: a) legal environment; b) organizational capacity; c) financial viability; d) advocacy; and e) public image. Each aspect is given a ranking on a scale from one to seven, with one being the best. COMMENTS: In March 1998, an ENI/DGSR team conducted an assessment of targeted NGOs employing the NGO Sustainability Index. Their findings are employed as the baseline scores for 1997.	YEAR	PLANNED	ACTUAL
	1996		
	1997		a) 4; b) 4; c) 5; d) 5; e) 5
	1998	a) 4; b) 4; c) 5; d) 5; e) 4	
	1999	a) 3; b) 3; c) 5; d) 4; e) 4	
	2000	a) 2; b) 3; c) 4; d) 4; e) 4	
	2001	a) 2; b) 3; c) 4; d) 3; e) 3	
	2002	a) 2; b) 2; c) 3; d) 3; e) 3	

OBJECTIVE: Citizens increase their participation in political and economic decision-making APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: SO			
INDICATOR: 6) Number of a) youth and b) female candidates put forward by target parties as a percent of all candidates			
UNIT OF MEASURE: Percentage -- same as indicator SOURCE: Party Reports to NDI INDICATOR DESCRIPTION: Youth are those 18 - 30 years of age. For parliamentary elections only -- scheduled 1998 and 2002. COMMENTS: Both youth and female candidacy levels have fallen since independence in 1991. Leadership attitudes toward these two groups are entrenched. Targets are set at a modest level because of entrenched attitudes.	YEAR	PLANNED	ACTUAL
	1996		
	1997		a) 5.8% b) 7.5 %
	1998	a) 7% b) 8%	
	1999		
	2000		
	2001		
	2002	a) 9% b) 10%	

OBJECTIVE: Citizens increase their participation in political and economic decision-making APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: IR 2.1.1: Improved Financial Viability of NGOs			
INDICATOR: 1) Percentage of target NGOs demonstrating good financial management by reaching 3 out of 4 points on the scorecard			
UNIT OF MEASURE: USAID/Macedonia scorecard--see Description SOURCE: ISC, CRS, Delphi INDICATOR DESCRIPTION: Scorecard: 1) annual financial report released to members (0=No; 1=yes) 2) double entry bookkeeping system in use (0=No; 1=yes) 3) systematic categorization of receipts (0=no; 1=yes) 4) does unit-based budgeting (can project unit costs) (0=no; 1=yes) Target groups include those assisted by Delphi, ISC, and CRS (NPA only) COMMENTS: Current targets are for Delphi and CRS (only NPA) groups. ISC will conduct its baseline survey of new groups once they are selected (summer 1998), after which the targets will be adjusted accordingly. 2000 is the year in which the NPA will reach this threshold.	YEAR	PLANNED	ACTUAL
	1996 (Basel.)		
	1997 (Basel.)		6
	1998	10	
	1999	12	
	2000	15	
	2001	16	
	2002	18	

OBJECTIVE: Citizens increase their participation in political and economic decision-making APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: IR 2.1.1: Improved Financial Viability of NGOs			
INDICATOR: 2) Number of target groups obtaining non-USAID financial assistance during the year: a) number receiving local monetary assistance totalling at least \$1000; b) number receiving foreign donor grant support; and c) percentage of parents' councils paying membership fees to the national parents' association			
UNIT OF MEASURE: Same as indicator	YEAR	PLANNED	ACTUAL
SOURCE: CRS, ISC, Delphi	1996		
INDICATOR DESCRIPTION: Target groups include those assisted by Delphi, ISC, and CRS (NPA and 60 PCs). b) does not apply to CRS; c) only applies to CRS. COMMENTS: Targets for a) and b) are currently restricted to activities by Delphi and CRS and are in terms of numbers of target groups. ISC will do its baseline survey after its groups are selected and will then establish targets, after which the total indicator targets will be modified. c) is in terms of the percentage.	1997		a) 3 b) 2
	1998	a) 3 b) 2	
	1999	a) 10 b) 5 c) 10%	
	2000	a) 15 b) 6 c) 20%	
	2001	a) 21 b) 7 c) 35%	
	2002	a) 27 b) 8 c) 50%	

OBJECTIVE: Citizens increase their participation in political and economic decision-making APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: IR 2.1.1: Improved Financial Viability of NGOs			
INDICATOR: 3) a) More favorable NGO law passed; b) Improved NGO tax law passed			
UNIT OF MEASURE: yes/no	YEAR	PLANNED	ACTUAL
SOURCE: ICNL, CFED	1996	a) 4	a) 4
INDICATOR DESCRIPTION: a) NGO law passed which meets 10 of 15 key criteria; b) Tax law more favorable to NGO revenue collection passed (yes/no) COMMENTS: Key criteria are: 1) "informal organizations"; 2) membership and non-membership NGOs; 3) number of founders; 4) legal entities as founders; 5) capitalization; 6) registration process; 7) registration body; 8) public registry; 9) internal governance; 10) not-for-profit principle, 11) purposes; 12) public advocacy; 13) economic activities; 14) termination; and 15) distribution of assets.	1997	a) 4	a) 4
	1998	a) 4	a) 4
	1999	a) 10	
	2000	a) 10 b) yes	
	2001	a) 12	
	2002	a) 12	

OBJECTIVE: Citizens increase their participation in political and economic decision-making APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: IR 2.1.2: Improved and More Democratic NGO management			
INDICATOR: 1) Percentage of target groups showing improvement on the participatory planning index			
UNIT OF MEASURE: Participatory Planning Index SOURCE: Delphi, ISC and CRS - applies to all their target groups INDICATOR DESCRIPTION: Index: 1) NGO has a clear vision/mission; 2) NGO has an annual plan; 3) NGO monitors plans continuing applicability and adjusts as needed. One to four points for each element; total range from 3 - 12 points. An NGO needs to demonstrate two points improvement per annum to be recorded. Results are cumulative. COMMENTS: Index elements have the following criteria: 1) leaders, staff and volunteers know the Mission and took part in developing it, vision is well articulated and, if written materials are used by NGO, then vision is referred to; 2) plan has clear objectives tied to Vision, actions in support of objectives are well thought through; resource assumptions for carrying out actions are realistic; timeline is realistic; staff, volunteers and leaders took part in developing the plan; plan is shared with members and volunteers; and 3) NGO monitors implementation of plan and adjusts plan as needed. Each element is worth between one and four points, with four points representing excellent job/filled all criteria and one representing nothing or very little. Current data are numerical rather than percentage (from CRS and Delphi) as it is not currently possible to aggregate and turn into a percentage until we have ISC targets after they conduct their baseline survey.	YEAR	PLANNED	ACTUAL
	1996 (Basel.)		3
	1997 (Basel.)	5	4
	1998	10	
	1999	36	
	2000	71	
	2001	82	
	2002	82	

OBJECTIVE: Citizens increase their participation in political and economic decision-making APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: IR 2.1.2: Improved and More Democratic NGO management			
INDICATOR: 2) Percentage of target NGOs releasing annual financial report to members			
UNIT OF MEASURE: Same as indicator SOURCE: CRS, ISC, Delphi INDICATOR DESCRIPTION: Annual Financial Report. Results are cumulative. COMMENTS: Release of annual financial reports represents an open and transparent management mechanism in place. Current data are numerical rather than percentage (from CRS and Delphi) as it is not currently possible to aggregate and turn into a percentage until we have ISC targets after they conduct their baseline survey.	YEAR	PLANNED	ACTUAL
	1996		
	1997		5
	1998	8	
	1999	18	
	2000	29	
	2001	39	

	2002	47	
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OBJECTIVE: Citizens increase their participation in political and economic decision-making APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: IR 2.1.3: More Effective Advocacy by NGOs			
INDICATOR: 1) Percentage of target groups showing improvement on the advocacy index			
UNIT OF MEASURE: Percentage of target groups	YEAR	PLANNED	ACTUAL
SOURCE: SO 2.1 Team Assessment	1996 (Basel.)		
INDICATOR DESCRIPTION: The index has seven elements. Groups registering a two point improvement on the scale per annum will be reported. Applies to CRS, ISC and Delphi target NGOs. Results are per annum. COMMENTS: Current data are numerical rather than percentage (from CRS and Delphi) as it is not currently possible to aggregate and turn into a percentage until we have ISC targets after they conduct their baseline survey. It is assumed that Delphi will terminate in late 2000.	1997 (Basel.)		5
	1998	12	
	1999	17	
	2000	17	
	2001	11	
	2002	11	

OBJECTIVE: Citizens increase their participation in political and economic decision-making APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: IR 2.1.3: More Effective Advocacy by NGOs			
INDICATOR: 2) Percentage of target NGOs making better use of media to achieve goals			
UNIT OF MEASURE: Percentage -- same as indicator	YEAR	PLANNED	ACTUAL
SOURCE: ISC, CRS, Delphi	1996		
INDICATOR DESCRIPTION: Percentage of target groups who improve their use of the media by 1) increasing media coverage over the past year; and/or 2) making use of one new medium (i.e., TV or radio if only used print before). Advertisements of events do not count -- the coverage needs to be substantive. Applies to ISC, Delphi and NPA. Results are cumulative. COMMENTS: The underlying assumption is that the greater the public awareness of NGO issues and activities, the higher the level of public support of those issues and activities. NPA will improve its use of the media every year from 1999 through 2002. Current data (from CRS and Delphi) are numerical rather than percentage as it is not currently possible to aggregate and turn into a percentage until we have ISC targets after they conduct their baseline survey.	1997		2
	1998	8	
	1999	15	
	2000	27	
	2001	28	
	2002	1	

OBJECTIVE: Citizens increase their participation in political and economic decision-making APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: IR 2.1.3: More Effective Advocacy by NGOs			
INDICATOR: 4) Percentage of target Parents' Councils actively involved in implementing civic education curricula in their children's schools			
UNIT OF MEASURE: Percentage of target PCs	YEAR	PLANNED	ACTUAL
SOURCE: CRS	1996 (Basel.)		
INDICATOR DESCRIPTION: Need criteria for active involvement in implementation	1997 (Basel.)		
COMMENTS:	1998		0
	1999	90%	
	2000	90%	
	2001	90%	
	2002	90%	

OBJECTIVE: Citizens increase their participation in political and economic decision making APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: IR 2.1.4: Improved Party and Government Systems for Conducting Elections			
INDICATOR: 1) Number of targeted political parties with Western style campaign structure			
UNIT OF MEASURE: Number of political parties	YEAR	PLANNED	ACTUAL
SOURCE: Party reports to NDI	1994 (baseline)		0
INDICATOR DESCRIPTION: Includes staff devoted especially to the campaign with functional allocation of responsibilities	1997		
COMMENTS: This indicator is only relevant in election years. Western style campaign structures indicate a democratization of the election process and a growing awareness of the importance of the electorate as opposed to the party itself.	1998	4	
	1999		
	2000	5	
	2001		
	2002	5	

OBJECTIVE: 2.1 Citizens increase their participation in political and economic decision making APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: IR 2.1.4: Improved Party and Government Systems for Conducting Elections			
INDICATOR: 2) Percentage of local party branches per target party that a) have a local election plan that fits with the national plan; b) make a good effort to obtain media coverage			
UNIT OF MEASURE: Percentage of party branches	YEAR	PLANNED	ACTUAL
SOURCE: NDI and target party records	1996		
INDICATOR DESCRIPTION: a) elements of local plan tie to national plan; b) at least 2 press conferences and 4 press releases	1997		
COMMENTS: This is an indicator of the maxim that "all politics are local", i.e., national platforms are modified to reflect local needs and no party can obtain success without local media coverage. Still need targets from NDI.	1998		
	1999		
	2000		
	2001		
	2002		

OBJECTIVE: Citizens increase their participation in political and economic decision making APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: IR 2.1.4: Improved Party and Government Systems for Conducting Elections			
INDICATOR: 3) Percentage of polling places monitored by target parties during election day			
UNIT OF MEASURE: Percentage of polling places	YEAR	PLANNED	ACTUAL
SOURCE: NDI and party records	1996 (Basel.)		
INDICATOR DESCRIPTION: Percentage of the polls monitored throughout voting day by all target parties w/ a candidate in that district	1997 (Basel.)		
COMMENTS: This indicates the relative success in conducting fair and transparent elections with equal access to the ballot for all. Still need targets from NDI.	1998		
	1999		
	2000		
	2001		
	2002		

OBJECTIVE: Citizens increase their participation in political and economic decision making APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: IR 2.1.4: Improved Party and Government Systems for Conducting Elections			
INDICATOR: 4) Improvements in the electoral law/system against a list of reforms promoted			
UNIT OF MEASURE: yes/no against a list of reforms	YEAR	PLANNED	ACTUAL
SOURCE: NDI, the law	1996		
INDICATOR DESCRIPTION:	1997		
COMMENTS: 1998 reforms: 1) less variation in size electoral districts; 2) change in composition of the state Electoral Commission to make it more independent of Government; 3) increased representation of parties on the Electoral Commission; and 4) voter registration list is made available to the parties. A new list of reforms to promote will be selected after the 1998 elections and analysis of the problem perceived with the law and/or system under which the elections were held.	1998	yes	
	1999		
	2000		
	2001		
	2002		

OBJECTIVE: Citizens increase their participation in political and economic decision making APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: IR 2.1.4: Improved Party and Government Systems for Conducting Elections			
INDICATOR: 5) Number of target parties with electoral platforms based on voter contact and analysis			
UNIT OF MEASURE: Number of parties	YEAR	PLANNED	ACTUAL
SOURCE: NDI and party records	1994 (Basel.)		0
INDICATOR DESCRIPTION: Targets here are based on NDI's output definition.	1997		
COMMENTS:	1998	? not clear if NDI is setting a target	
	1999	2	
	2000	4	
	2001	4	
	2002	5	

OBJECTIVE: Citizens increase their participation in political and economic decision making			
APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: IR 2.1.5 Strengthened Party Representation in Parliament			
INDICATOR: 1) Percentage of MPs from target parties meeting with local branches at least 3 times per year			
UNIT OF MEASURE: Same as indicator	YEAR	PLANNED	ACTUAL
SOURCE: Party Reports to NDI	1996		
INDICATOR DESCRIPTION: Among 120 MPs in 1997 and 1998; among MPs holding the 85 majoritarian seats only from 1999.	1997		33%
COMMENTS: A greater effort by MPs to meet with the local branch party in the constituency which elected them indicates a growing awareness of the need to decentralize party/political matters from the central/monolithic structure back to the electorate.	1998	46%	
	1999	50%	
	2000	55%	
	2001	55%	
	2002	60%	

OBJECTIVE: Citizens increase their participation in political and economic decision making			
APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: IR 2.1.5: Strengthened Party Representation in Parliament			
INDICATOR: 2) Number of target parties in parliament with a clear agenda at the beginning of the parliamentary term.			
UNIT OF MEASURE: parties	YEAR	PLANNED	ACTUAL
SOURCE: NDI review of written agendas	1996 (Basel.)		
INDICATOR DESCRIPTION: A qualitative review of the agenda is carried out to ensure that it is coherent and connected in some way to campaign promises.	1997 (Basel.)		0
COMMENTS: Only relevant at the beginning of a parliamentary term. If election not held until 2002, would need target for 2003. Target for 1999 of 4 or 5 depends on whether NDI works with 4 or 5 parties -- they hope to work with 5.	1998		
	1999	4 or 5	
	2000		
	2001		
	2002		

OBJECTIVE: Citizens increase their participation in political and economic decision making APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: IR 2.1.5: Strengthened Party Representation in Parliament			
INDICATOR: 3) Number of target parties in parliament with a functioning caucus			
UNIT OF MEASURE: Criteria: party forms a group in parliament, group runs the party agenda through committee structure, enforces party discipline, appoints speakers to shadow government ministers, starts preparing materials for the next election, appoints a party whip, etc. SOURCE: Party reports to NDI INDICATOR DESCRIPTION: This indicator is a scorecard with one point for each criterion achieved and no point if not achieved and then a total reported each year COMMENTS:	YEAR	PLANNED	ACTUAL
	1996		
	1997		0
	1998		
	1999	3	
	2000	4 or 5	
	2001		
	2002		

OBJECTIVE: Citizens increase their participation in political and economic decision making APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: IR 2.1.6: Strengthened Party Organization			
INDICATOR: 1) Number of parties in routine communications with all local branches			
UNIT OF MEASURE: Same as indicator SOURCE: NDI INDICATOR DESCRIPTION: Newsletters, memos, visits, letters from Party Headquarters at least 3 times per year to ALL branches COMMENTS: A greater effort by Party Headquarters to communicate with the local branch party offices indicates a growing openness of party matters and the democratization of setting the party platform and agenda.	YEAR	PLANNED	ACTUAL
	1996 (Basel.)		
	1997 (Basel.)		2
	1998	4	
	1999	6	
	2000	6	
	2001	6	
	2002		

OBJECTIVE: Citizens increase their participation in political and economic decision making APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: IR 2.1.6: Strengthened Party Organization			
INDICATOR: 2) Local branch members as percent of target party executive board - average across target parties			
UNIT OF MEASURE: Same as indicator	YEAR	PLANNED	ACTUAL
SOURCE: NDI and party records	1996		
INDICATOR DESCRIPTION: Number of local branch members belonging to executive boards of target parties as a percentage of total board members of target parties.	1997		
	1998	27%	
	1999		
	2000	37%	
	2001		
COMMENTS: This indicates the growing decentralization and democratization of party positions, based upon increased local input into such matters. Boards are elected for different periods of time ranging from one to four years, so it does not make sense to measure this indicator annually.	2002	45%	

OBJECTIVE: Citizens increase their participation in political and economic decision making APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: IR 2.1.6: Strengthened Party Organization			
INDICATOR: 3) Percentage of new electoral districts in which target party has opened local branch			
UNIT OF MEASURE: Same as indicator	YEAR	PLANNED	ACTUAL
SOURCE: NDI and party records	1996 (Basel.)		
INDICATOR DESCRIPTION: A branch office opened by the party in an electoral division.	1997 (Basel.)		27%
	1998	40%	
	1999	65%	
	2000	80%	
	2001	80%	
COMMENTS: Baseline is irrelevant because electoral districts are in the process of changing with the new electoral law for the 1998 parliamentary elections. Targets will be finalized in early 1999 after the 1998 election.	2002		

OBJECTIVE: Citizens increase their participation in political and economic decision making APPROVED: dd/mm/yyyy COUNTRY/ORGANIZATION: Macedonia/USAID			
RESULT NAME: IR 2.1.6: Strengthened Party Organization			
INDICATOR: 4) a) Number of target parties mounting recruitment campaigns; and b) total number of recruitment campaigns across target parties			
UNIT OF MEASURE: Same as indicator	YEAR	PLANNED	ACTUAL
SOURCE: NDI and party records	1996		
INDICATOR DESCRIPTION: Recruitment campaigns are usually geographic in focus.	1997		a) 4; b) 4
COMMENTS: Number of campaigns will always be higher in election years so a consistent trend line cannot be expected. Number of campaigns rather than increase in membership in used as none of the parties currently have reliable data and none are willing to share true figures with anyone else.	1998	a) 5; b) 15	
	1999	a) 6; b) 12	
	2000	a) 6; b) 18	
	2001	a) 6; b) 18-20	
	2002		

1. STATEMENT OF THE STRATEGIC OBJECTIVE

S.O. 2.3 "More Effective, Responsive and Accountable Local Government"

Recent developments in Macedonia, including a new legal framework for local government with increased local responsibilities and an economic climate which has greatly reduced central funding of local needs, support a strategy of promoting more decentralization and democracy at the local level. These developments offer a window of opportunity to affect long-term reform in the powers of local governments to manage and finance services while devolving greater decision-making to citizens at a local level. A more effective and responsive local government could also contribute to reducing ethnic tensions by allowing minority groups in Macedonia (Albanians principally) to resolve local issues locally rather than relying on centralized decision-making which they perceive as not always serving their interests.

Until now USAID's local government activities (under S.O. 2.1) targeted a small number of pilot cities with the aim of developing public participation and improved local management capacities. While this approach brought about isolated successes, without complimentary work at the national level, local development approaches were at times out of synchronization with Macedonia's highly centralized legal and administrative government framework.

USAID plans that the new local government strategy for assistance will work on twin tracks to support more effective, responsive and accountable local government: at the national level by helping to bring about decentralization policy reforms and, at the local level, by developing local capacity to implement expanded responsibilities and to open policy decisions to public debate.

As will be described in greater detail further on, USAID plans a two phased approach to design and implementation of the S.O. Assuming success with the first phase, USAID plans to proceed with the second and, as a result of the first, may revise IRs and results packages. The following therefore is advanced as a preliminary definition of success at the S.O. level: (a) roles and responsibilities for local government functions among different levels of government are clearly delineated; (b) increased revenues are available to fulfill local government functions; (c) channels for local citizens to voice opinions about service delivery are improved; (d) local governments' capacity to manage and expand environmental infrastructure is improved; and (e) advocacy at the local and national level by municipal associations and networks is strengthened.

2. PROBLEM ANALYSIS

The Government of Macedonia (GOM) is in the process of creating a new legislative framework which significantly affects the responsibilities of local governments and their relationship to the central government. While this framework provides the potential for delegation of many powers to local government, there is uncertainty and debate within

Macedonia as to the degree of decentralization appropriate at this time. A major policy dialogue concerning decentralization of authority and responsibility is needed to complete the enabling legislation.

Under the law in its current form, local government authority is circumscribed and highly controlled by the central government. There is limited leeway for local government decision making; many services are implemented by the central line ministry represented in the municipality and overlapping and potentially conflicting responsibilities have been allocated to both levels of government. At the same time financial resources for local government, including the expansion of infrastructure, are more limited than before.

In addition to completing a legal framework for local government and eliminating conflicts among laws, the GOM must clarify the degree of responsibility and authority it is willing to decentralize and provide clear implementing regulations. The confusion in roles has led the GOM to recognize that a greater degree of decentralization of authority and responsibility will be necessary. The problems which need to be addressed can be summarized as follows:

- (a) Structural issues concerning allocations of responsibility and authority to different levels of government; among ministries, between central and local government; between local government and service companies.
- (b) Lack of decentralization of authority and responsibility to local governments, both functionally and fiscally (including control of and access to financial resources).
- (c) Lack of a coherent policy at the national and local level to finance the capital investment needs and inadequate infrastructure and management of infrastructure to meet European environmental standards.
- (d) Inadequate citizen participation in decision-making, because of overcentralization, and lack of advocacy of local government interests.
- (e) Lack of management capacity at a local level to undertake expanding responsibilities, aggravated by a recent expansion in the number of municipalities.

3. RESULTS FRAMEWORK NARRATIVE

A. Transition Hypothesis

Local Government in Macedonia can make more cost effective and responsive delivery of service, including environmental infrastructure, if proper roles and responsibilities, both functional and fiscal (including management of infrastructure), are rationalized within the GOM. If services are improved and local feedback encouraged, citizens and NGOs will have a greater sense of participation in solving local problems, including inter-ethnic problems.

The development of environmental infrastructure in municipalities requires alternative sources of funding through the Macedonian Environmental Fund and private sector financing.

B. Critical Assumptions

1. Political Will. That the GOM has the long term political will to decentralize authority. Sub-assumptions are that the GOM will view decentralization as a means of relieving ethnic tensions, rather than a threat to them; ethnic tensions will not get worse; and the upcoming elections will result in a government disposed to decentralization.
2. Authorities. That the GOM will make rationalization of authorities a priority and that GOM decisions will be viable.
3. Declining Revenues. That declining central government revenues will lead to increased reliance on municipalities for infrastructure and its financing.
4. Environmental Fund. That the GOM is committed to making the Environmental Fund a viable instrument for financing infrastructure.
5. Other Donors. That the EU Phare Public Administration program will help facilitate opening up a dialogue in defining appropriate government roles, clarifying tax and collection payments, and raising the issue of central government financing of local government responsibilities. That the World Bank financing of two wastewater projects will relate conditionality to decentralization and infrastructure finance issues.

C. Causal Linkages

USAID plans a two-phased approach to the design and implementation of the local government S.O. Phase One will entail a detailed analysis of the present roles and responsibilities of government at the national and local levels for the delivery of local services. This phase will be conducted jointly with the GOM. From this phase will come clear recommendations for rationalization of authorities and responsibilities for local services. Assuming the recommendations are accepted by the GOM and a timetable developed for their implementation, USAID plans to move to Phase Two. USAID also anticipates that the detailed analysis will likely result in subsequent revision of the following preliminarily developed IR packages. As a result, the Mission is not submitting S.O. level indicators at this time.

IR 2.3.1 Clearer Delineation of Local and National Government Roles and Responsibilities.

The structure of government in Macedonia is a strong central government and 123 relatively weak municipal governments. Despite recent legislation increasing responsibilities at the local government level, many functions and decision-making authorities remain within a host

of central ministries. This has created serious impediments to good governance at the local level. Licensing and permit issuing decisions made by central authorities in Skopje are frequently at odds with established local ordinances. The lack of coordination and oversight in planning and licensing has led to illegal construction and haphazard development. Local governments attempt to be responsive to citizens by planning for social and economic development but fundamental decisions needed to implement a local vision are not within their grasp.

Unlike other countries in the region, there is no central ministry or department to harmonize authorities, issue policy implementation guidelines and interface directly with municipalities. The situation has been further compounded by recent legislation which has expanded the number of municipalities from 34 to 123. Many of the "new" municipalities lack even the most rudimentary administrative capacity, staff and budgetary resources - in effect are municipalities in name only.

Perhaps the most critical and initial intermediate result leading to more effective local government in Macedonia would be a rationalization of respective government roles in local government. USAID will assist the GOM to undertake this systematic sorting out of responsibilities and authorities on a sectoral basis, with a clear recognition that some government functions, particularly in a country as small as Macedonia, will be more effectively and logically carried out at a central or regional level.

IR 2.3.2 Increased Revenues Available to Fulfill Local Government Functions.

At present local government activities are financed through a combination of local taxes and targeted grants from central government. Revenue resources are prescribed by law and severely limited in number while the central government retains power not only to set tax rates, but to cap the total budget financed through local taxes. As a result locally controlled funds are frequently insufficient to cover even limited locally mandated responsibilities. Taxes collected locally in excess of the centrally defined budget limit go back to central government, thus penalizing well managed towns. Municipalities may impose additional special purpose taxes, usually for capital improvements; however, while some use the authority, many do not because of the political stigma associated with higher tax rates.

Present law has shifted responsibility for financing urban services from joint stockholding companies to municipalities without accompanying revenue authority for operations or capital investments. Water, sewage, transportation and solid waste tariff collection rates are low, barely covering operating expenses, and are presently frozen by the central government. Even small repairs and system improvements cannot be financed from revenues. Municipalities face declining revenues, service and customer satisfaction. In addition environmental infrastructure does not begin to meet European standards and both residential and industrial wastes directly pollute land and water courses.

Capital improvements are almost entirely financed by central government grants which are entirely inadequate to requirements. Private financing of infrastructure is unknown and the government is reluctant to incur debt for sector investments.

USAID will assist the GOM to increase local revenues, meet capital investment needs, and provide for more local control over resources. At the central level, a more transparent system of capital grants needs to be undertaken, including allocation of a portion of centrally collected taxes to local government. (EU Phare's Public Administration program intends to develop a new sharing formula.) With respect to infrastructure, USAID will address the issue of the cap on local tax rates and budgets and will explore ways to attract investment for infrastructure requirements.

IR 2.3.3 Improved Channels for the Expression of Popular Input into Local Service Delivery.

Citizen participation in local decision-making is impeded by the structure of government at the local level. While local governments are beginning to recognize the importance of citizen involvement, when decisions fall under ministerial control at the central level, citizens feel frustrated and poorly served by their government. Unlike locally elected officials, local ministry representatives have little incentive and power to include citizens in decision-making that takes place at a central level.

As local government has gained authority over services, it needs to develop public support for management improvements and infrastructure investment. Increasing lack of resources will require local government either to increase service rates or impose local self-taxes for infrastructure improvements. Local government has been reluctant to undertake these steps without local support. In order to spur greater participation in local government, USAID will attempt to develop improved mechanisms to permit two way communication between elected officials, public enterprises and local government staff and citizens, NGOs and businesses.

IR 2.3.4 Local Government's Capacity to Manage and Expand Environmental Infrastructure is Improved.

During the next several years Macedonia will need to upgrade its environmental infrastructure and reduce urban pollution in order to bring its environment up to European Union standards. Among the capacities greatly needed at local government level is the ability to develop proposals and financing packages for investment in environmental infrastructure.

At present municipalities lack government resources to finance environmental infrastructure or access to alternative financing. Macedonia's newly created Environmental Fund offers the potential to provide needed capital as well as to assist in accessing privately funded financing packages.

USAID will work with selected local governments and public enterprises to lay the foundation for improved services, particularly environmental services. It will assist the GOM to launch the Environmental Fund. It will improve Fund systems and procedures, provide innovative solutions (including the development of financing packages) and improve knowledge and skills of public enterprise and local government staff as well as locally elected leaders.

IR 2.3.5 Strengthened Advocacy by Municipal Associations and Networks.

Municipal officials, NGOs and citizens do not adequately participate in national decision-making on local issues. At the present time there is an established association of municipalities, however, it functions as an official organ of the central government and the ruling party. Municipal officials, NGOs and businesses express the need for fora for open discussion of common issues at the local level, dialogue with central authorities, and a vehicle to upgrade skills and training opportunities.

As in the case of IR 2.3.4 above, USAID will work with selected local government units, NGO and other groups to develop channels through which local leaders can aggregate their interests and speak more persuasively to government at a national level.

D. Linkages to ENI's Overarching Goals for Local Government.

The above discussion outlines the casual IR linkages necessary for USAID to achieve S.O. 2.3's objective. At the same time, the planned intermediate results also relate closely to the overarching local government goals established by ENI as follows:

Local Governments are Responsive to Citizens on Local Issues

Progress under SO 2.3 will be achieved when local governments are able to respond with authority to citizens on issues of local importance, such as business licensing and building permits. This will take place when respective roles and responsibilities of government are rationalized per IR 2.3.1 and when improved channels for the expression of popular input into local service delivery exist per IR 2.3.3.

National and Local Governments Plan and Finance Infrastructure Investments

A goal at the SO level is for national and local governments to develop and implement a rational strategy for planning and financing infrastructure investments. This will take place when functions of government are rationalized per IR 2.3.1, when increased revenues are available to fulfil local government functions per IR 2.3.2, when there are improved channels for the expression of popular input into local service delivery per IR 2.3.3 and when local governments have improved capacity to manage and expand environmental infrastructure per IR 2.3.4.

Local Government Provides Better Services

An over-riding goal under this SO is to improve the level and quality of urban services by making them more cost effective, customer responsive and better maintained. This will take place when respective roles are rationalized per IR 2.3.1, when revenues are available to fulfill local government functions per IR 2.3.2, when improved channels exist for obtaining local customer input per IR 2.3.3 and when local governments (services) have improved capacity to manage and expand environmental infrastructure per IR 2.3.4.

Citizens Have Input in Local Decision-making

Where local governments have or gain decision-making authority, an important impact under SO 2.3 is for local governments and public service enterprises to make decisions that reflect citizen input. This will take place when respective roles are rationalized per IR 2.3.1, and when improved channels exist for popular input per IR 2.3.3.

Local Governments Raise and Receive Adequate Financing to Carry out Mandated Responsibilities

As local governments gain increased responsibilities it is vital that they have the authority to raise and retain local taxes, control their budgets without centrally imposed caps, and receive a portion of centrally collected taxes commensurate with their mandated responsibilities. This will take place when respective roles are rationalized per IR 2.3.1, when increased revenues are available per IR 2.3.2, and when local governments have improved capacity to manage and expand environmental infrastructure per IR 2.3.4.

Local Governments Have a Voice in National Policy

To achieve success at the SO level, local government officials should have meaningful impact on national policy decisions that have an effect on local governments. This will take place when improved channels exist at a local level per IR 2.3.3, and when there is increased advocacy at a national level per IR 2.3.5

4. PROGRESS TO DATE

Heretofore only limited local government activity has been undertaken under S.O. 2.1 (participation). As discussed earlier, these activities were directed at the local level and were not coordinated with public administrative reform activity at the national level. Nonetheless USAID had some successes in advancing local government development and at the same time learned some lessons in the process.

The principal lesson learned is that local government issues cannot be addressed solely at the local level. Local efforts have to be coordinated at the national as well as local level in order

to bring about needed change. Also, given the small size and population of Macedonia, not all services can or should be provided by the local government unit. Economies of scale are such that some services will need to be provided at a national or at least regional level, for example: primary, secondary and tertiary education; police/security; and health care provision.

Despite less than optimal results (because of the lack of a national level component), USAID's local government activity to date uncovered a large ground-swell within local government units to gain greater control over their affairs and destinies. The finance officers of 15 municipalities have registered an NGO to assist them in furthering their expertise in their work while providing a common forum for information exchange. However, meaningful change in local governance has been found to be based upon two critical components: (1) a strong political will for change in the local political directorate; and (2) the willingness to allow change in the central political directorate.

5. PROGRAM APPROACHES

USAID expects to take a phased approach to S.O 2.3. It will work first with the national government on policy reform leading to decentralization and devolution of authority. If policy reforms related to rationalization of local government functions are agreed to and a timetable for implementation is developed, USAID will move to Phase Two.

Clearer Delineation of Local and National Government Roles and Responsibilities

This IR is critical to the rest and shall be the primary test of the GOM's political will. USAID, in conjunction with the GOM's Inter-Ministerial Commission on Public Administration (whose secretariat is under the Ministry of Justice), plans to conduct a multi-faceted analysis which will clarify and make recommendations regarding the legal and institutional framework for local government administration and finance. Among other subjects, the analysis will consider: the legal and administrative issues concerning allocations of responsibility and authority to different levels of government; the issues related to existing structures and methods of managing and financing local infrastructure; the management problems of local government; the need for municipal association development; and recommendations and conditions for the next phase of USAID's local government support.

Assuming successful completion of Phase One, including GOM commitment to devolution of appropriate management and fiscal authorities to local governments, USAID plans to move to Phase Two. Further assistance would be targeted to continue reform at the national level and to improve performance in management of local government's functions in up to four selected municipalities in Macedonia. While specific activities will depend on the results of the first phase, and possible revision of IR packages, prospective activities under the next four IRs provisionally will include:

Increased Revenues Available to Fulfill Local Government Functions

Following agreement on Phase One authorities, USAID would plan to initiate policy reform at the national level to establish a system of clear, transparent and dependable fiscal transfers from central tax sources to provide the financial basis for rational multi-year budgeting by municipalities to cover mandated responsibilities.

Within the selected municipalities, USAID advisors would work with public service enterprises and municipalities to improve cost effectiveness and increased resource generation, including fee setting and collection, private sector participation, cost recovery, and better use of tax instruments. The two proposed World Bank municipal infrastructure investment projects offer potential for a collaborative effort whereby USAID can assist the cities to meet cost recovery conditionality.

Improved Channels for the Expression of Popular Input into Local Service Delivery

Within the selected municipalities, USAID advisors would work with local government, NGOs, businesses and citizens to establish methods for public participation in local decision-making in such areas as investment priorities, tax and fee levels, environmental improvements and development strategies.

Improved Local Government Capacity to Manage and Expand Local Infrastructure

With respect to the environment, USAID will work at both the national and local government level to facilitate the establishment and implementation of Macedonia's Fund for the Environment and Nature Protection and Promotion. In the selected municipalities USAID would assist in the preparation of sound proposals for environmental infrastructure development and pollution abatement including, where appropriate, the development of financing packages. USAID assistance would also entail working with local communities, NGO and local governments to raise environmental issues at a local level. Within the selected municipalities USAID would assist local government and public service enterprises in priority setting, medium term planning and strategies for investment and operations. In addition, USAID would work with small groups of pilot local government and public service enterprises to improve management practices favoring improved performance and cost effectiveness, particularly in environmental services such as water and waste water treatment, solid waste, pollution control and land use control. In the unlikely event that the local government initiative did not move beyond Phase One, USAID plans to continue the establishment of the Fund as a special initiative.

Strengthened Advocacy by Municipal Associations and Networks

In order to promote advocacy for local government issues at a national level, USAID will assist local governments, NGOs, professional associations and other groups to link efforts and participate on a broader plane.

6. DEVELOPMENT PARTNERS

USAID's activities in local government will be complemented by EU Phare and the World Bank. USAID's national level policy agenda should closely complement the work of EU Phare's Public Administration and Environment projects. This public administration project will create a government commission on public administration to address policy formation on a cross-ministerial basis. In addition, a component of the EU Phare program will assist the Ministry of Finance to develop a revenue sharing formula. This effort will commence in summer 1998 and close coordination of EU Phare and USAID approaches will be essential.

The EU Phare environmental project will work with the Ministry of Environment on the development of an infrastructure finance approach, as well as a prioritized investment strategy. This can provide a beginning point for a better definition of roles of government.

Two upcoming World Bank wastewater loans offer an opportunity for joint USAID/World Bank conditionality on infrastructure development and finance.

Finally, the Soros Foundation is developing a local government program which will provide matching grants to cities to work with NGOs. As this project design develops it may provide opportunities for collaboration.

7. SUSTAINABILITY

Of the five IRs, the first, IR 2.3.1, will be the most critical as, in the absence of a basic rationalization of the respective roles of government, other local government reforms can only be at the margin. Over the longer term, IR 2.3.3 (local participation) and 2.3.5 (national advocacy) will be key to democratization objectives.

USAID envisions that the Phase One analysis and subsequent policy dialogue with the GOM will take the better part of next year and the subsequent phase at least three more years. While it is early to predict, assuming GOM political will to bring about change, conditions for completion of the S.O. could be in place by 2002.

Homestretch Strategic Objective

Pension Reform While not a strategic objective, USAID has provided assistance for pension reform since 1995 and expects to continue for one more year. The Pension and Disability Fund, which operates outside of the Macedonian budget, administers pension benefits to enterprise employees and pension entitlement to war veterans, farmers, and former members of the police force. It also covers health insurance for pensioners and benefits to handicapped people. It runs a chronic deficit and is a significant annual drain on central government revenues. The GOM is working on short term measures to increase revenues and reduce benefits. In the longer term, the Pension Fund will not be solvent regardless of whatever short-term measures are taken. With IMF and World Bank support, USAID has provided

short-term assistance examining reform alternatives including privatization. (Over the longer term a privatized pension service could be a significant source of support for capital market development per S.O. 1.3)

At the request of the Minister of Labor and at the urging of the World Bank, USAID has agreed to continue technical assistance for one more year, in order to assist in drafting needed statutory and regulatory changes and design institutional changes, as well as design and implement mechanisms to finance the transition to a privatized system. While privatization of the Pension Fund will likely require support after 1999, USAID expects that any additional assistance beyond that date will be funded by the World Bank.

Special Objectives

USAID has three special initiatives, two transfers to other USG Agencies, and a program support account.

WTO Accession Macedonia views WTO accession as an important way station on route to its ultimate goal of accession to the EU market. Access to international markets is particularly important for Macedonian businesses and consumers both because of the limited size of its domestic market and its dependence heretofore on a limited and sometimes problematic external market in Yugoslavia, Bulgaria, and Greece. WTO accession would provide Macedonia an opportunity to expand its markets more broadly.

Macedonia applied for WTO accession in 1994. In July, 1996 it submitted to the WTO Secretariat its Memorandum of Foreign Trade Regime which outlined its trade laws and practices in the specified format. Subsequent to this, Macedonia's application has been held up over the "name" issue (i.e. Macedonia submitted its documentation as "Macedonia" and not the formula insisted upon by Greece - FYROM). An immediate solution to this impasse is not in sight.

USAID believes that technical assistance in support of WTO accession could have considerable complementarity with S.O. 1.3 objectives. (The Mission has included it as a special initiative rather than as a part of S.O. 1.3 because the "name" issue falls outside of USAID's span of control). It envisions two to four years of assistance in researching and documenting the GOM's laws and policies concerning WTO related subject areas and in short-term technical assistance related to such issues as agricultural subsidies, intellectual property rights, anti-dumping actions, countervailing duties and customs procedures. Two important preconditions need to be attached to USAID assistance, however: resolution of the "name" issue and designation by the GOM of one focal point within the government to have overall responsibility for accession issues.

Small Enterprise Assistance Funds (SEAF) The SEAF venture capital fund will receive USAID funding in 1999. SEAF plans to invest \$50,000 to \$400,000 in market oriented small and medium sized enterprises taking 25 to 49 per cent ownership in its investments.

Typically investee companies will be: privately owned or in the process of privatization; small to medium sized with less than \$1,000,000 in capitalization; and from such sub-sectors as agri-business, light industry or business services. In three to seven years SEAF will divest itself by selling its ownership back to its partners, to a third party or the public through the stock exchange. Again USAID believes that the SEAF will have complementarity with S.O. 1.3 but has included it as a special initiative because its targeted results fall outside of the Mission's management span of control.

Training This is a cross-cutting initiative which provides short term training for all USAID's activities. As such it has been an extremely valuable resource. In the past it has been run largely on an *ad hoc* basis; however, this year USAID has undertaken to develop a prioritized training plan. The Mission also plans to turn over day-to-day management of the activity in Skopje to World Learning. USAID envisions continuing training through 2004.

Transfers to USG Agencies USAID plans to continue transfers of assistance to other USG Agencies at post through 2001. These include the Peace Corps SPA and USIA in support of democracy, media training activities and Ron Brown Fellowships. These transfers support Mission activities directly or indirectly and are strongly supported by the Country Team.

Program Support Under this category are included program development activities, in particular two USPSCs helping to manage S.O.s 1.3, 2.1 and 2.3. USAID plans to continue this activity through 2004.

E. Environmental Issues

This section responds to issues related to Sections 118/119 of the Foreign Assistance Act. With respect to Section 118, Macedonia has no tropical forests. With respect to Section 119 (biodiversity), Macedonia faces a number of constraints including: lack of an adequate assessment of Macedonia's biodiversity and a coherent strategy to conserve it; lack of adequate set aside for biodiversity protection; and inadequate management of existing national parks. In light of its limited resources and management span, USAID plans to support biodiversity conservation activities through NGOs working on S.O. 2.1. and through small grants to selected NGOs. Assistance in setting up the Environmental Fund under S.O. 2.3 will also support biodiversity since related activities would also be eligible for funding.

PART III
RESOURCE REQUIREMENTS

Part III. Resource Requirements

A. Program Funding Requirements:

In Part I USAID advanced the view that, while Macedonia has made significant advances in both economic reform and democratic development since its independence in 1991, the country's full transition is far from complete. In the Mission's view, graduation can and should take place when: Macedonia's macro-economic situation is under control; its private sector is expanding at a reasonable rate with employment starting to pick up; it has a stable coalition government with ethnic minority participation; and ethnic tensions are contained, or on the wane. By 2001, the presently planned date of the last U.S. contribution to Macedonia's development, it is likely that only one of these conditions will be fully realized - macroeconomic stability.

In Part II USAID examined where it thought its three strategic objectives (private sector expansion, citizens' participation and local government development) would be on the continuum to full market/democratic transition. In the case of S.O. 1.3 (private sector expansion), USAID anticipates completing tax assistance, rural credit, and support to improved management of firms and farm groups by 2001. With respect to S.O. 2.1 (citizens' participation), USAID's support to political party development should be complete by 2001. Finally, in the case of S.O. 2.3 (local government), a highly significant, but by itself inconclusive, rationalization of respective government roles in local government should be finished by 2001 as will USAID's contribution to the establishment and implementation of Macedonia's environmental fund. These will be impressive achievements, but the transition will not be complete.

At the end of this section the Mission has projected its funding requirements from FY 1999 through 2004 (three years beyond the scheduled phase out date of 2001). The bottom line is that for \$10 million, spread over three years from FY 2002 to FY 2004, USAID can conclude its assistance to Macedonia and, at the same time, make a significant contribution to its successful transition to a market-oriented democracy. In terms of individual strategic objective results this would mean: S.O. 1.3 - USAID will complete its technical assistance activities in financial management, banking supervision, and commercial legal reform as well as the establishment of a viable capital market; S.O. 2.1 - a core group of NGO's will have improved and democratic management, better financial management, exposure to fundraising and revenue generation systems and improved advocacy and public awareness, some of this at the national level; and S.O. 2.3 - local governments will be able to plan and execute the provision of local services financed with their own/national revenues with the support and participation of local NGOs, businesses and citizens, and a network of municipalities will be able to advocate at a national level.

B. Discussion of Programming Options:

Were USAID to be held to the original 2001 target closeout, the following would be necessary:

In the case of S.O. 1.3, USAID would attempt to truncate assistance so as to limit financial management, banking supervision and commercial legal reform to those activities now underway. There would be no second round reform funded by USAID in this instance. Plans to undertake development of a capital market would also have to be truncated.

In the case of S.O. 2.1, USAID would attempt to step up efforts to strengthen NGO management and financial management with additional resources drawn from S.O. 2.3 (see below). Plans to develop national level NGOs would be canceled, however.

In the case of S.O. 2.3, USAID would limit its assistance to local government to the assistance planned for the first phase, i.e., rationalization of respective roles of government for local government service. Subsequent reforms would be left to another donor or to the GOM itself.

In terms of S.O. prioritization, USAID considers them in the following order: S.O. 1.3, S.O. 2.1, and finally S.O. 2.3. Expansion of Macedonia's private sector is the key to everything else; growth, employment and stability. A vibrant civil society (S.O. 2.1) will be essential to Macedonia's full development as a democratic nation and can help maintain stability. Finally, S.O. 2.3 is positioned last because it has less sunk investment than the other two S.O.s and because the critical GOM political will has not yet been fully tested.

In terms of allocation of resources, over fifty per cent of projected funding requirements will be used to support S.O. 1.3, in keeping with past patterns and its relative priority. By 2003 S.O. 1.3 percentage of resources will drop to thirty six percent, reflecting expected return on results and the need to complete sustainability objectives in both S.O.s 2.1 and 2.3. With respect to S.O. 2.1, following completion of USAID's contribution to party development in 2001, requirements will drop off. Finally, regarding S.O. 2.3, the important first phase of the undertaking, IR 2.3.1 will be partially funded from FY 97 carryover resources.

C. Management Requirements:

USAID Macedonia will continue to have a significant workload through to 2001 and beyond, should funding for an additional three years be approved. The Mission has, with this strategy, begun to consolidate its activities and will be completing others by 2001. We anticipate managing three strategic objectives until 2004 although individual activities will be greatly reduced. In 1998, the Mission had some thirty two separate activities underway (including three transfers to other USG Agencies). By 2001 these should be down to fourteen and by 2002 thirteen. The number of activities is not expected subsequently to drop by much until 2004.

In order to manage the projected workload the Mission will need the workforce it now has (or will shortly be) in place. i.e. three USDH, one USPSC local hire, two USPSCs internationally recruited, seven FNPSCs OE funded, and three FNPSC program funded. Although the number of program activities will be dropping by the end of 2001, the Mission

will be assuming COTR responsibility for the MAMA activity, a considerable increase in management load. We assume that all other COTR functions will continue to be provided by USAID/Washington although we are prepared to accept additional COTR responsibilities on a selective basis, if the workload allows. We also assume that contracting, controller and other support will continue to be provided from Budapest.

By 2001 the Mission plans to drop one USDH position and one local hire PSC. Assuming that an additional three years of funding are approved, the Mission envisions dropping one additional USDH and PSC by 2003.

MACEDONIA STRATEGY FRAMEWORK

1999 - 2004

RESOURCE REQUIREMENTS

(Dollars - thousands)

	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	Total
SO 1.3 Accelerated Development and Growth of Private Sector							
IR 1.3.1 Improved Financial Management and Transparency	850	550	300	300	0	0	2,000
IR 1.3.2 Increased Access to Sources of Financing	2,850	2,250	1,500	1,850	900	650	10,000
IR 1.3.3 Legal and Policy Reform Implemented and Disseminated	1,450	1,150	400	400	200	100	3,700
IR 1.3.4 Improved Management Systems and Practices Adopted by Private Firms	4,000	4,000	2,000	0	0	0	10,000
SO 1.3 TOTAL	9,150	7,950	4,200	2,550	1,100	750	25,700
SO 2.1 Citizens Increase their Participation in Political and Economic Decision Making							
IR 2.1.1 Improved Financial Viability of NGOs	400	300	200	200	100	0	1,200
IR 2.1.2 Improved and More Democratic NGO Management	340	300	200	200	100	100	1,240
IR 2.1.3 More Effective Advocacy by NGOs	300	200	200	200	250	300	1,450
IR 2.1.4 Improved Party and Government Systems for Conducting Elections	100	100	0	0	0	0	200
IR 2.1.5 Strengthened Party Representation in Parliament	100	100	0	0	0	0	200
IR 2.1.6 Strengthened Party Organization	100	100	0	0	0	0	200
SO 2.1 TOTAL	1,340	1,100	600	600	450	400	4,490

	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	TOTAL
SO 2.3 More Effective Responsive and Accountable Local Government							
IR 2.3.1 Clearer Delineation of Local National Government Roles and Responsibilities	0	0	0	0	0	0	0
IR 2.3.2 Increased Revenues Available to Fulfill Local Government Functions	700	700	700	500	350	200	3,150
IR 2.3.3 Improved Channels for the Expression of Popular Input into Local Service Delivery	200	200	200	150	100	100	950
IR 2.3.4 Local Government Capacity to Manage and Expand Environmental Infrastructure is Improved	700	700	700	500	350	200	3,150
IR 2.3.5 Strengthened Advocacy by Municipal Associations and Networks	200	200	200	150	100	100	950
SO 2.3 TOTAL	1,800	1,800	1,800	1,300	900	600	8,200
SO 4.0 Special Initiatives and Cross-Cutting Programs							
Pension Reform	500	0	0	0	0	0	500
WTO Accession	550	550	500	0	0	0	1,600
SEAF	1,000	0	0	0	0	0	1,000
Training	510	450	200	100	100	0	1,360
Transfers to USG-Agencies	550	550	200	50	50	0	1,400
AEPS	600	600	500	400	400	250	2,750
SO 4.1 TOTAL	3,710	2,150	1,400	550	550	250	8,610
TOTAL	16,000	13,000	8,000	5,000	3,000	2,000	47,000

MACEDONIA ECONOMIC ASSESSMENT REPORT

INTRODUCTION

Report Purpose and Structure: This report focuses on the status of market reform programs in Macedonia which are critical for economic growth. The primary purpose of the report is to provide practical recommendations relevant to the formulation of the next 5-year USAID assistance strategy for Macedonia.

The report is structured in seven economic reform subject categories: Privatization, Fiscal Reform, Banking Sector, Capital Markets, Commercial Law, World Trade Organization Accession, and Enterprise Promotion/Development. The practical focus of work in these categories is on ENI Bureau Strategic Objectives 1.1, 1.2, 1.3 and 1.4.

The report was prepared by a 5-person ENI/W team -- Alexander Shapleigh (team leader), Catherine Toth, Nicholas Klissas, Ieva Veidemanis, and John Godden. USAID/Macedonia staff (Stephen Gonyea and Elizabeth Markovic) participated as active team members in country. A list of individuals interviewed during the exercise is in Annex A.

General Comments and Highlights: The following points cover cross-cutting concerns or general conclusions which should inform USAID decisions for continued economic reform work.

-- Transition economy: Macedonia is clearly a transition economy facing most of the same challenges as other former communist countries in the ENI region, and very similar challenges to those of the other former Yugoslav republics. On the other hand, Macedonia does not resemble the situation in neighboring Albania, which for different historical reasons is viewed as a less developed rather than a transition economy.

-- Economic reform: The highest priority on the economic front is to put in place the market-based reforms that will sustain private sector-led economic growth. Systemic policy, legal/regulatory and institutional change drives each of the economic reform agendas addressed in the report. Once a favorable market reform environment is firmly in place, combined with appropriate assistance and incentives for key business sectors (small and medium enterprises, exporters), sustained domestic and foreign investment in the economy should follow. The increased investment will then translate into jobs and incomes, gradually reducing the current very high unemployment levels and improving the social and political stability of the country. USAID already supports this process and is in position to extend and expand that support over the next five years.

-- Macroeconomic policy: The International Monetary Fund (IMF) is deeply engaged in Macedonian macroeconomic policy. The current IMF 1997-1999 Enhanced Structural

Adjustment Facility is aimed at price stability and a realistic exchange rate, and contains multiple conditionalities related to monetary, foreign exchange and fiscal policies to achieve these fundamental objectives. Government of Macedonia (GOM) macroeconomic performance under the ESAF program has improved noticeably, including low domestic budget deficits and low inflation. USAID is engaged somewhat on macro-level subjects, particularly in bank supervision, and to a lesser degree in tax administration and pension reform. Senior IMF officers responsible for ESAF implementation seek continued active coordination with USAID on these and other structural/legal reform activities.

-- World Bank linkages: Wherever feasible, grant-funded USAID technical assistance should complement World Bank sector loans and other credits. Current examples are financial sector, collateral law, and pension reform activities, where USAID efforts are keys to meeting World Bank conditionalities. USAID should follow and as appropriate do joint planning during the preparation of the Bank's next multi-year strategy for Macedonia, expected by end-1998. A new World Bank Country Economic Memorandum on Macedonia, expected mid-1998, will contain additional up-to-date economic analysis relevant to USAID work.

An immediate near-term opportunity for USAID-World Bank collaboration is a \$5 million "innovation loan" which the Bank would like to apply to critical Macedonian reform agendas. The team discussed this matter in detail with Bank officers -- the highest priority jointly agreed would be a combined effort to strengthen the judicial system's capacity to handle and enforce commercial laws.

-- Political will: While the team is optimistic about overall reform prospects, there is also evidence that GOM political will is uncertain and subject to pressure from vested interests. Examples are: (a) need for a more aggressive policy to tackle corporate governance weaknesses in privatized firms, which is resisted by a still entrenched "social ownership" mentality; (b) political reluctance to move forcefully on bankruptcy law enforcement, which will only add to unemployment rolls; (c) resolve to clarify/enhance the enforcement authorities of the central bank (National Bank of Macedonia); and (d) need to provide funding and expanded authority for an independent Securities Exchange Commission.

-- U.S. strategic interests: USAID programs need to be fully integrated with larger U.S. policy concerns affecting Macedonia. These include: (a) political stability in a still volatile Balkan region, complicated by ethnic tensions within Macedonia related to the large Albanian minority population; and (b) trade and investment promotion, *inter alia*, Macedonia's eventual accession to the World Trade Organization and a more proactive GOM foreign investment promotion effort. The team has briefed the U.S. Ambassador on its findings and recommendations, and it is clear that the Embassy and USAID have several agendas on which joint action can help accelerate reforms.

-- Priorities for USAID strategy: Given a projected \$15-20 million/year total program for Macedonia, at least 50% of funds should be dedicated to economic growth activities.

Within that amount, the bulk of funds should be concentrated on systemic economic reforms vs. "transactions" activities (direct assistance to Macedonian firms via business services or credit/equity financing). In terms of Strategic Objectives (SOs), two SOs should suffice: SO 1.3 should encompass commercial law, WTO accession, judicial strengthening, tax administration, and "transactions" activities; SO 1.4 could consist of banking sector, capital markets, pension reform, and related privatization/corporate governance activities.

Subject categories not addressed thoroughly by the team but which are expected to be parts of the two SOs are accounting reform (SO 1.3), agribusiness (SO 1.3), and anti-corruption initiatives (cross-cut).

EXECUTIVE SUMMARY

Privatization

Principal Findings:

-- Privatization status: By end-1997, privatization of most of the non-agricultural state-owned enterprises had been accomplished. The remaining privatization agenda includes the large "agro-kombinats," banks, strategic industries and other large firms that were left off the initial privatization list. USAID assistance is not needed for privatization transactions support but there are related capital markets and corporate governance issues which are (or should be) addressed by USAID activities.

-- Residual shares: While it is true that over 80% of the non-agricultural state-owned enterprises have been privatized, ownership has in fact not been fully transferred. Most of the privatization has been accomplished through negotiated purchase contracts with former managers and/or employees (MBOs/EBOs). The shares are not truly owned until paid for, and if payment cannot be made the shares will revert to the National Privatization Agency (NPA). In the case of MBOs, the NPA has retained 34% of the shares for future disposition (no clear reading of how they will be sold). The retention in these ways of residual shares is likely to delay the emergence of private enterprises free of debt to the NPA or otherwise beholden to the government.

-- Corporate governance: A key problem in privatized firms concerns fragmentation of ownership (and/or the wrong kind of concentration). It is reported that the firms are either unwilling or incapable of restructuring into market-driven, profit-maximizing enterprises because ownership via MBOs/EBOs is too fragmented with no core group of controlling shareholders. Or, where some consolidation has occurred, manager groups have sometimes abused their prerogatives to gain large blocks of shares at low prices (e.g., through use of Article 290 of the Companies Law allowing them to restrict transferability of shares to intra-company transactions). Moreover, shareholders do not clearly understand their rights, and there is little evidence of enforcement of Companies Law provisions in these regards.

-- Market value of shares: Even when shareholders choose to sell on the market (Macedonia Stock Exchange), how a market price would be determined, and how the price would differ from the purchase contract price, is untested. The same valuation issue will arise if the NPA decides to sell residual shares via the MSE.

-- Land privatization: Non-ag privatized enterprises currently do not own the land underneath their premises. Land is held by the government; there do not appear to be lease charges at present. The land needs to be sold (preferable to lease). Effective title to land

brings a critical economic asset useable as collateral for business expansion. From a fiscal viewpoint, land ownership will also provide a predictable and difficult to evade source of tax revenue for local governments, which could find its way into capital investments beneficial to business. However, it is unclear how land sales could proceed (the law in this regard is evidently going toward its second reading). A further complication is how the process will relate to denationalization, i.e., how land which is also the subject of restitution claims by former owners can be sold to the privatized company and sales proceeds (cash, shares) be given to former owners to satisfy their claims.

Recommendations:

- Link initiatives dealing with residual shares and corporate governance to (a) new Capital Markets Activity, (b) Companies Law implementation/enforcement work under a continuing Commercial Law Activity, and (c) business advisory services by the Macedonian Business Resource Center (MBRC) to privatized firms.
- On land privatization, closely follow and find creative way to collaborate with the EU/Phare Land Policy and Cadastre Project.

Fiscal Policy

Principal Findings:

- Mixed picture: Overall fiscal policy performance appears reasonably positive, measured by low domestic budget deficits and low inflation rates. On the other hand, tax and social security payment compliance needs improvement, and the total revenues available to the GOM are far below requirements to fund social and capital infrastructure programs critical for economic growth.
- Tax administration not transparent: The tax system, while it works, lacks consistently applied and enforced procedures. For example, legal entities that pay profits tax do so based on formulas linked to prior tax payments plus adjustments. Later, and not covering all companies, Public Revenue Office (PRO) tax inspectors conduct audits, and only at this point is full information on tax liabilities obtained (often resulting in substantial additional tax payments). The example serves to illustrate what appears to be a general perception that the system is capricious, that some taxpayers end up paying more than others, and thus the playing field is not level with regard to taxes. This buttresses tax avoidance/evasion behavior and will be a brake on business investment (lack of confidence that competitors will be held to same rules, and lack of predictability in exactly how taxes due will be calculated).
- PRO requires significant reform: While the PRO was set up in 1994 to become a

single entity where tax administration would operate, only the tax audit function (for legal entities) has been consolidated in the PRO. Tax policy remains the purview of the Ministry of Finance (MOF). Tax payments, and any accompanying tax reporting documents, are submitted to the national payments bureau (ZPP). PRO can get copies of payment information and records received by ZPP, but it is not automatic. Thus, the absence of a transparent system with regular, consistent filings of tax return information by taxpayers (per above) is further complicated by a weak tax administration structure. All comprehensive analyses on tax administration confirm that (a) the PRO needs to be more independent of the MOF, (b) the records available to the ZPP need to be fully integrated (on-line) with the PRO, and (c) the PRO still has far to go to become an efficient, modernized tax administration service.

-- Value Added Tax (VAT): The government has determined, in large measure due to imperatives to harmonize with EU models, to replace its existing sales tax with a VAT system. The advantages of VAT, ultimately, have to do with shoring up the tax base, given the close tracking with VAT of all sales transactions which may pull taxpayers more tightly into the net and reduce avoidance. A GOM commission to oversee the VAT adoption process has been in place for three years. VAT was to be operational 1/1/98 but the start date has been pushed back to 1/1/99. Importantly, the PRO is to administer VAT. A consensus among advisors is that unless the PRO is substantially reformed first, VAT should not be introduced; otherwise the GOM risks confusion, abuse, and probable lower net revenue returns than with the existing sales tax. The 1/1/99 start is therefore doubtful, but the PRO, MOF and donors are lining up to try to meet the deadline.

-- Pension Fund Reform: The existing pension fund (PF) is periodically in arrears requiring infusions of GOM transfers which contribute to the budget deficit. To bring it into balance, either expenses (retirement payouts) need to be reduced, revenues (contributions) increased, or both. The long-term solvency problems of the PF, however, are beyond its control: weak economy, high levels of unemployment, aging population, and a contributions and payroll tax system (per above) which discourages compliance. The bottom line is that a mixed public-private pension system, to include a slightly reformed state PF and a government-regulated, legally mandated private pension system, needs to be established. The GOM is moving down this path. Key decisions on the future system are likely to be made in 1998, and USAID's current pension reform activity (Carana) is directly engaged in the process. The conversion is being actively encouraged by the IMF, World Bank, USAID and others.

Recommendations:

-- Recognize the importance of tax policy and tax administration in USAID strategy (can be integrated in SO 1.3; consciously integrate the U.S. Treasury advisory program into larger strategy). Coordinate with GOM and other donors on assistance aimed at improved transparency in filing tax returns and clearly defined reform/capacity building within the PRO. (Ironically, the imperative to introduce the VAT may help trigger recognition and action on

more systemic problems).

-- On pension reform, give serious consideration to a further 2-year activity to assist implementation of a parallel private pension system if GOM makes decision to go forward. ENI experience (ENI Pension Reform Working Group) is that such effort is essential given multiple tasks involved: public education; capital market link; pension regulatory agency; etc. A follow-on activity may be essential to protect USAID's investment thus far in the reform endeavor, and it should be linked to World Bank or other donor funds that cover the (estimated) \$17-25 million "transition" cost of converting from a single to a two-pillar system.

Banking Sector

Principal Findings:

-- Many positive changes have occurred in the Macedonian banking sector and USAID is recognized as a principal player in implementing these changes, particularly in the area of bank supervision by the National Bank of Macedonia (NBM). Much remains to be done, however, in post-privatization structural reform within the commercial banks and further strengthening of the regulatory oversight and enforcement capacity by the NBM.

-- The Macedonian banking crisis in March 1997, and impressive government response, increased reform potential within regulatory authorities at the NBM. At the same time, depositor confidence vanished. Increasing depositor confidence over the next two to three years will be challenging but critical as resolutions of problems, such as crisis levels of bad-debt and non-existent corporate governance, must be accomplished.

-- Increased threshold level capital requirements, effective as of January 1, 2001, will force a contraction within the system from 22 to an estimated 8 or 10 banks. The contraction will put pressure on both the regulatory capability of the NBM and management skills in the commercial banks, but also offers opportunities for foreign investment. A strong USAID presence in the sector during this transition will be critical.

-- Conflicts of interest and connected lending are a serious problem. A majority of the privatized bank assets are owned and managed by companies with socially entrenched management which continues to look to the banks for financing. This stifles development of market-based analysis of borrower credit worthiness and can be characterized as quasi-directed lending. The need to increase lending to new and small to medium size enterprises is negatively affected by these continued practices.

-- The current regulatory structure of the Deposit Insurance Fund represents a significant

systemic risk due to the unlimited liability it imposes on the commercial banks and its present level of funding. It is widely recognized that the Fund is only funded at about 10 to 15% of the capacity needed to handle a medium-sized banking crisis.

-- Structural reform of the ZPP and payment system has commenced and will positively impact the banking sector's ability to monitor liquidity. As this transition occurs, liquidity management remains a risk factor and exposes the NBM and the national budget to potential liability.

Recommendations:

-- Two principal results of the banking component of Strategic Objective 1.4 are increased mobilization of domestic savings and increased domestic lending. Continued structural improvement within the banking sector through strengthened corporate governance and increased capacity within the management of banks will positively impact both. Strong but fair regulatory oversight is also essential. Bank regulation and supervision must be strengthened and the legal framework for enforcement of banking laws and regulations must be improved. Key synergies with the Commercial Law program should be developed.

-- The Mission should continue both of its current activities in the banking sector. The bank supervision activity should be extended through at least FY 2000. Continued support for the Macedonian Bank Operations Center (MBOC) activity should include special attention to how the MBOC could eventually become self-sufficient through fee income. Timely and effective assistance in specific areas such as deposit insurance, the savings house sector, and the payment system can be addressed as components of these two activities.

Capital Markets

Principal Findings:

-- At present, there is no formal USAID-sponsored capital markets development program in Macedonia. However, a variety of factors indicate that capital markets are poised for growth - the political will and economic timing is right, some of the basic building blocks are already in place, and the enthusiasm of market participants is high. In addition, the links between an effectively functioning capital market and privatization, pension reform, monetary policy and other key reform categories compel more serious attention to the capital market development agenda.

-- Politically, the GOM lists capital markets among its highest priorities for the next phase of reform. Actions to match this resolve are needed, e.g., the provision of adequate

GOM funding of an independent Securities and Exchange Commission. There remain doubts as to how thoroughly the GOM has thought through all of the inter-connected elements of a mature capital market and how actions should be sequenced in the Macedonian context.

-- The effective completion of the privatization process is unlikely to occur without recourse to the capital market. If the GOM acts to remove the ambiguities in Article 290 of the Companies Law, which allow management to impede transferability of shares, a means will need to be more deliberately developed for trading of shares in privatized companies. In general, the more that privatized firms become listed and traded over the Macedonia Stock Exchange (MSE), the faster will be the MSE's growth in turnover and accompanying viability of both the MSE and its broker/dealer members.

-- To date, the GOM's approach to the development of its capital markets has been much more cautious and, in a sense, "regulated" than other ENI countries. A Securities Exchange Commission (SEC) was established in 1992, before there really existed market participants to regulate. There was still little to regulate when the MSE was founded in 1995. The present structure and functions of the SEC indicate that there is a great deal to be done to develop its role and capacities.

-- Market participants to date consist of the broker community and the MSE. The MSE officially opened in March 1996. It is member-owned; the membership is wholly comprised of banks and other financial institutions including insurance companies. The trading environment is an order driven, open outcry market. The brokers are all employees of the founding firms. MSE management appears to be well informed and thoughtful with respect to its current role and potential future responsibilities. They have approached USAID with requests for specific assistance which would be justifiable in a capital markets development program.

-- Components lacking in the present capital markets structure are a formalized clearance and settlement system and depository and registry systems. In addition, corporate governance and basic shareholder education need to be addressed, from both shareholder and management perspectives. Finally, legislation on the creation of investment funds is expected to be passed soon. Although it is not anticipated that this will immediately create a great deal of activity in the market, this event will trigger other capital market issues which will need to be addressed.

-- To date, USAID has funded some targeted short-term training for the MSE through the Financial Services Volunteer Corps (FSVC). The British Know-How Fund has provided the MSE with resident advisor technical assistance that will end in April 1998, after which it may shift any future support to the SEC.

Recommendations:

-- USAID should take a cautious approach in this area. For the near term (balance of

FY 98 and into FY 99), several short-term interventions are recommended that will help position USAID for potential greater involvement later on. A full-fledged activity should be contemplated only if key policy issues are satisfactorily resolved, paramount among these being a convincing commitment to the role of the SEC in regulating the market.

-- If a comprehensive activity is indicated, it should be timed to start in FY 99 and cover a 3-4 year period. All capital market work would fall under SO 1.4.

Commercial Law

Principal Findings:

-- The GOM is reforming its commercial law framework, which it inherited from the former Yugoslavia. A reformed commercial legal regime will facilitate commerce, trade, and investment through greater transparency of economic and legal transactions and greater predictability of outcomes in dispute resolution procedures. Grandfathered Yugoslav law reflects Tito's unique blend of communist principles and market economics, the practical effect of which is that virtually all of Macedonia's commercial laws need revision.

-- Starting in FY 97, USAID has funded the Commercial Law Project (CFED contract), whose objective is to assist the GOM in reforming commercial laws. The project's first priority was to reform the Law on Obligations, which forms a nucleus for a new commercial code. The project was continued and expanded in FY 98. Overall experience with the project has been somewhat disappointing. It reveals that the GOM lacks an efficient, coherent process for drafting, considering, and enacting new laws. The GOM also lacks the requisite expertise to do so. There is an urgent need to complete the process of putting in place an integrated set of company, contract, collateral, bankruptcy, competition and other laws essential for a market economy.

-- In order for the current project to succeed, the GOM's legal reform process needs to be streamlined and made efficient. Clearer responsibility for managing the drafting and clearance of new laws must be given by Parliament and the Council of Ministers to a single entity, preferably the Ministry of Justice (MOJ). On a positive note, a system is emerging whereby indigenous NGOs and affected interest groups can comment on draft legislation.

-- Once laws have been drafted and enacted, GOM mechanisms for effective implementation and enforcement of laws, whether new or old, are weak and require strengthening on a priority basis. In order to make legal reforms sustainable, all players in the legal system (judges, lawyers, prosecutors, and members of the business community) need to become familiar with the laws and their respective roles in their use.

-- A major impediment to implementation and enforcement of laws is the overall quality and administration of the Macedonian judicial system. Jammed dockets, low public esteem, low pay, limited independence from other branches of government, lack of enforcement power, and a need for training are problems associated with the court system. Moreover, Alternate Dispute Resolution is not a viable option for substituting use of the court system in the short term.

-- The World Bank has expressed strong interest and readiness to devote substantial funds to upgrade the judicial system. EU/Phare is implementing programs to remove legal impediments to the creation/operation of small and medium-size enterprises (SMEs), to harmonize GOM commercial laws with EU directives (particularly in the area of competition policy), and to rationalize GOM land policy and land surveys/registration procedures.

Recommendations:

-- USAID should initiate a dialogue with the GOM concerning the problems that bottlenecks in legislative drafting and enactment are causing. If possible, this discussion should be made in the form of a coordinated appeal with other international assistance providers (USAID, World Bank, EU/Phare, and British Know-How Fund). Wherever possible, technical assistance activities which involve legal drafting should be tied to World Bank loan conditionalities.

-- If the GOM makes a sufficiently positive response, USAID ought to see through to completion its current technical assistance related to the revision and/or enactment of the Law on Obligations and the Collateral Law.

-- A new 2-3 year USAID-funded initiative should be undertaken with respect to implementation and enforcement of *all* commercial laws (and possibly banking laws). The new activity might ideally begin via competitive contract action in FY 99, complemented by continued work by ABA/CEELI liaisons. The activity would focus on training judges, lawyers, and other affected groups as well as public education. It would also address improvements in court administration including, ideally, parallel funding by the World Bank to upgrade court facilities, equipment, communications technology and other requirements for increased efficiency.

World Trade Organization Accession

Principal Findings:

-- The GOM is expressing renewed interest in acceding to the World Trade Organization

(WTO). WTO accession will help integrate Macedonia into the world trading system. In doing so, Macedonia will be obliged to undertake needed reforms in its overall trade regime, which will facilitate added trade and investment and promote the development of competitive Macedonian businesses.

-- Access to international markets is particularly important for Macedonian businesses and consumers both because of the dramatic shrinkage in the accessible domestic market and because of Macedonia's landlocked position in the southern Balkans, surrounded by Serbia, Bulgaria, Greece, and Albania. The placing of sanctions on Bosnia and on Serbia and Montenegro by the international community in 1991, and of an economic blockade by Greece in 1994 (both of which have since been lifted), resulted in a severe economic decline, underscoring Macedonia's need for access to foreign markets.

-- Macedonia applied for GATT observer status in October 1993 and for WTO accession a year later. In July 1996, Macedonia submitted its Memorandum of Foreign Trade Regime to the WTO Secretariat, which outlined its trade laws and practices according to a specified format. The GOM's application was not acted upon. As the WTO is an organization which requires consensus in decision-making, Greece's longstanding objections to the use of the word "Macedonia" as Macedonia's national name apparently blocked the WTO Secretariat from moving forward in circulating the documents and organizing a Working Party Group. It is thought by USG observers that this obstacle can be overcome, and that the "name issue" with Greece will be resolved.

-- WTO accession will require many serious changes in Macedonia's legal regime, and in the ways key ministries, agencies, and the judicial system operate. Therefore, WTO accession will require that a considerable amount of political will by the GOM's leadership be applied on a continual basis to see the necessary changes through to implementation.

Recommendations:

-- A new USAID-funded program of technical assistance (minimum 2 years) dedicated to WTO accession ought to be seriously considered, to begin in late FY 98 or early FY 99.

-- In order for an assistance project to be effective, the GOM must (a) resolve the Name Issue with the WTO Secretariat and WTO members and (b) clearly designate and empower a single focal point within the Government on accession issues.

Enterprise Promotion/Development**Principal Findings and Recommendations:****1. Policies Affecting the Growth of SMEs**

(i) **Principal Findings:** Small and Medium-size Enterprises (SMEs) currently employ 26% of Macedonia's workforce and are increasingly important in creating new jobs in the economy. Existing government policies are both supporting and hampering the development of the private sector and SMEs. The amended Companies Law requiring all companies to re-register by 1/1/99 will be a potentially time-consuming and disruptive process for SMEs. Disputes among GOM ministries over business and environment issues can present extra difficulties for businesses in obtaining permits and licenses based on the occupation of their premises. Compliance with a new law requiring international accounting standards (IAS) may initially cause some hardships. SMEs currently have access to accounting services and compliance with simpler, universal standards will be beneficial in the long run. The GOM's recently announced policy to waive social service contribution payments by employers as an incentive for companies to create new jobs may (or may not) have a positive impact for SMEs.

(ii) **Recommendations:** No new activity per se is recommended for USAID funds, but a more explicit emphasis is needed on seeking solutions to policy-related impediments to SME growth. EU/Phare has recently launched an activity to do this. Existing USAID-funded providers including the Macedonia Business Resource Center (MBRC) and other micro/small business financing programs should (a) feed data on key impediments facing SMEs to the EU/Phare project, and (b) find effective ways to convey to their SME business clients how they can apply the new commercial laws (companies, accounting, collateral, bankruptcy, etc.) to their best advantage.

2. Access to Financing

(i) **Principal Findings:** Bank consolidation, non-performing loans, and cronyism have resulted in a general lack of access by SMEs to loan finance. In addition, well prepared business plans/loan applications are not receiving fair adjudication by the banks. Access to microcredit appears to be adequate. In rural areas, small businesses, individuals and farmers have little or no access to lending institutions.

(ii) **Recommendations:** Redouble efforts to link USAID-funded activities working directly with SME firms with (a) parallel activities within commercial banks to encourage increased SME lending, and (b) effective use of new collateral law.

3. Access to Business Services

(i) Principal Findings: The MBRC has received high marks for professional assistance to SMEs in developing its financial and operations management, marketing and sales, and business development. These services are largely unavailable and/or unaffordable in the market and there is justification to continue subsidized donor-funded services for some time to come. Other donor organizations, principally the British Know-How Fund and EU/Phare, are now targeting SME development (8 new business advisory centers across the country).

(ii) Recommendations: Continue funding for the MBRC through FY 2000; however, plan for a phase-out when USAID funding ceases. It appears unlikely that MBRC itself could continue operations on a profitable, non-subsidized basis in its present form. Explicit attention needs to be given as to how, over time, a functioning for-profit market in business consulting services can be put in place, although it is recognized that a free-standing market is unlikely to evolve until the distortions inherent in all donor-subsidized business services operations are ended. MBRC could seek more support from other donors, in particular by linking its regional activities to donors which are establishing centers outside Skopje. (A more detailed assessment of the MBRC is currently being completed, which will guide design for a continued program.)

4. Trade and Investment Opportunities

(i) Principal Findings: The momentum of Macedonian trade has been slowed by border disputes with neighboring countries and there are a number of impediments of a political and regulatory nature to expanding trade and foreign investment. However, trade agreements with all of the former Yugoslav Republics and most neighboring countries are now in place and these should stimulate increased trade. Macedonia has historically been a producer of bulk commodities, with little value added, both in manufacturing and agriculture. Customs regulations are cumbersome and unevenly applied, penalizing legal importers and exporters. Macedonia has enacted legislation to establish a favorable environment for foreign investment; however, an effective Investment Promotion Agency providing reliable information to potential foreign investors is still in the planning stage.

(ii) Recommendations: Coordinate with the British Know-How Fund activity for introduction of ISO 9000 product standardization procedures which will be relevant to WTO accession. In agriculture and manufacturing trade programs, aim at developing more value added to production. Re possible measures to stimulate U.S. trade and investment in Macedonia, coordinate USAID activities, with initiatives by the Embassy/U.S. Foreign and Commercial Service. One idea worth exploring in the latter regard is the possibility of co-locating various services which USAID is supporting (MBRC, NICCL, etc.).

5. Agriculture and Agribusiness

(Other USAID reports cover these areas in depth)

- (i) Principal findings: Financing for rural enterprises is not readily available. There is an understanding of the importance for adding value to agricultural and agribusiness production.
- (ii) Recommendation: Continue support for WOCCU in its attempts to set up a Savings House to provide rural credit enterprises; expand short-term volunteer technical assistance in support of Mission agriculture/agribusiness program priorities, and the role of agribusiness associations.

FULL REPORT

Privatization

Current Situation:

Statistics issued by the GOM National Privatization Agency (NPA) state that the private sector now accounts for 73.5% of GDP. In some degree this is attributable to the transfer of ownership that has already occurred via the privatization program, but it also reflects new private investment unrelated to privatization.

As of December 31, 1997, the NPA reports that the "first phase" of the national privatization program is nearing its end. This phase comprises a total of 1,458 formerly 100% state-owned firms, of which 1,132 firms have already been privatized and the remaining 326 are either "in process" (234 firms) or scheduled for privatization (92 firms). These are primarily non-agricultural firms of which roughly 90% are small and medium sized enterprises (SMEs) and the remainder classified as "large" enterprises.

On the other hand, privatization of the larger state-owned agricultural enterprises (agro-kombinats) as well as larger industrial (including "strategic") enterprises has not yet occurred and remains an unfinished agenda. The agro-kombinats, which are diversified holdings and particularly significant in terms of larger scale agro-processing, are likely to undergo privatization during the course of the next two years. Many of the other large firms have been reorganized through the GOM's Special Restructuring Program as a means to prepare them for eventual sale; this has included spinning off parts of some enterprises, liquidating other operations, and other measures to put remaining operations on a profitable basis.

With regard to banks, most banks were converted to company status in the 1980s under the former Yugoslav government. These banks have now been "privatized," in that the majority owners of the banks were/are groups of firms that have themselves been privatized. The distortions caused by this ownership pattern, typified by heavy and often unsound "affiliated lending," are still unresolved (see section on Banking System).

Sales transactions carried out in the first phase have been (predominantly) sales to current managers and employees through Management and/or Employee Buyouts (MBO/EBOs). One of the key stated objectives in choosing this privatization method was to increase efficiency in the privatized firms, which was deemed most likely to occur if the managers/employees had a controlling ownership share. In practice, however, this has not happened. Instead of seeking to maximize profit for the benefit of shareholders, privatized firms have tended to elevate job

retention as the highest priority. Necessary restructuring has not occurred, i.e., "corporate governance" behavior within the firms is not yet driven by market-based discipline. Redundant labor is not being let go, firms with growth potential are not investing sufficiently in expansions, competitiveness in external trade markets is still weak, and chances for viable new employment creation have not materialized as much as anticipated. The NPA recognizes this dilemma but as yet there are no clear policies in place to compensate for the unexpected outcomes by policies which would encourage new behaviors.

To a large degree, this problem is driven by the fragmentation of ownership inherent in the MBO/EBO formula. With so many shareholders closely associated with company operations, no core shareholder group exercises sufficient control to force change. Complicating matters is Article 290(2) of the Companies Law which allows many companies to pass by-laws restricting the transferability of shares to other existing shareholders, thus preventing outsiders to buy in. At best, this loophole has led to the "wrong kind of concentration," whereby small numbers of manager-shareholders have been able to accumulate controlling blocks of shares with little intention of restructuring the companies.

Another dimension is the existence of "residual shares" still held by the NPA. In the MBO/EBO process, sales transactions were carried out on a purchase contract basis, allowing purchasers to pay for shares in installments (over up to a 5-year period). Thus, many firms listed as privatized are in fact only partially privatized. As of end-1997, the NPA Director reports that 100% of shares had been fully paid for in only half of the MBO/EBO contracts, leaving "residual shares" still to be purchased for the remaining half. If for any reason the shares are not eventually bought, they are to revert to the NPA.

The NPA Director, in speaking to these issues, stressed the importance of the capital market in the next phases of privatization (see section on Capital Markets). Sales of agro-kombinats and larger strategic enterprises are highly appropriate candidates for sale through the stock exchange to individuals and/or different forms of investment funds, and this method may lead to better corporate governance behavior particularly when combined with an objective to sell a controlling block of shares to "core" investor groups who are clearly market-oriented. The stock exchange also needs to be more effectively used as the conduit for sales of shares in the first-phase privatized companies. On one hand, this would be the logical outlet for sale of residual shares held by the NPA; on the other hand, and once the restrictions on transferability in Article 290(2) are unambiguously removed, individual employees or managers wishing to sell their shares on the open market could do so. To date, while this possibility theoretically exists, such sales have not taken place. A primary reason is the gap between bid and asking prices -- the market price for shares in MBO/EBO privatized companies appears to be far below the purchase contract price, and this presents obvious questions with how the purchase contract prices were determined.

A footnote on residual shareholding by the NPA may or may not merit attention (it was not possible to judge fully). Given the effective ownership by the GOM of residual shares in half of the "privatized" firms, are the new owners free to act independently from government, i.e.,

is this a further factor complicating corporate governance? An indirect suggestion that this may be the case was the temporary wage freeze imposed by the GOM in mid-1997 as a fiscal measure. It is not clear if the freeze applied automatically to the privatized firms; IMF reports state that "100% private-owned" firms were exempted. The NPA states that shares it holds are "preferred non-voting stock" with no rights of intervention in internal company management.

On a different front, the NPA acknowledges its disappointment that the privatizations to date have not involved any significant foreign investment. This is not surprising given the heavy prevalence of MBO/EBO transactions. As larger firms get privatized in the next rounds, it is more promising that foreign investors will seek "core investment" positions in the more viable firms, but they will also be attracted if it becomes apparent that the domestic stock exchange is a venue for easy exit should shares need to be sold. Thus it will be important that the larger companies be listed on the exchange at the start of the transactions process.

Finally, the status of land privatization was examined. At present, the privatized firms do not own the land under their premises. Land is still owned by the GOM but provisions in existing law provide privatized enterprises with the right to lease the land free of charge for five years from the date of privatization. A new land law is nearing completion which will address how land is to be sold or leased in future. For several reasons, outright sale would seem to be the preferred route. First, effective title to land will consolidate the holdings of the enterprise (and, probably importantly, increase the sum total of collateral available to firms to pledge as security against commercial bank loans needed for working and/or investment capital). Second, from a fiscal policy perspective, land ownership provides a difficult to evade source of predictable tax revenue for local governments, and a percentage of increased revenues should find its way into infrastructure investments beneficial to the private business sector. Third, in the Macedonian context, settlement of land ownership questions will help solve "restitution" claims of former land owners whose properties were nationalized under the Yugoslav government.

How the new land law, once effective, will involve sale vs. lease features, how provisions may differ for land under urban vs. agricultural enterprises, how sales prices of land will be set, and how former owners might receive sales proceeds (or possible company shares) in exchange for restitution claims are among the key unresolved land issues.

Other Donor Involvement: The World Bank has been engaged significantly in the Special Restructuring Program and other technical assistance for the National Privatization Agency. Aspects of this assistance will continue in future. The IMF is also closely following the privatization process as one of the key structural reforms complementing Macedonia's improved macroeconomic performance under the ESAF facility.

EU/Phare recently initiated a "Land Policy and Cadastre" Project which will provide assistance to the GOM on all of the interrelated land issues: laws, land registration, cadastral

surveys, denationalization (restitution claims), property valuation, mortgaging and conveyance, land administration, etc.

Recommendations for USAID Assistance Strategy:

1. No new specific privatization support activity is recommended (NB: USAID was earlier a principal donor in the establishing and operational support for the NPA). Other donors appear well placed to assist in the forthcoming second-phase transactions for the agro-kombinats and strategic enterprises. USAID's other involvement in the agriculture and energy sectors should be aligned with relevant privatization policies and post-privatization expectations in those sectors.
2. If USAID pursues a comprehensive capital markets activity (see separate recommendations), work relating to the key roles of the stock exchange in advancing privatization agendas should be folded into the activity. In particular, this would include (a) effective ways to insure the listing and active trading in shares of all privatized firms and (b) corporate governance improvement via shareholder education.
3. On land privatization, USAID should closely follow the progress of the EU/Phare project. It can be expected to have direct relevance to privatized firms (how they will be able to purchase or lease land under their enterprises, and at what price). Another linkage is the probable need for linking the movable property collateral registry, being set up with assistance by the USAID Commercial Law Project activity, with land and mortgage registries. The linking of all registries may involve physical co-location, and in any case there will be a need for computerized cross-reference.

Fiscal Reform

Current Situation:

For this section of the report, the analysis concentrated on tax administration and pension reform. A more comprehensive review would treat tax policy, national budget formulation and execution, and intergovernmental revenue and expenditure authorities.

Together with monetary policy, fiscal policy is the GOM's principal means to achieve macroeconomic stability. At present, Macedonia's fiscal performance is in near balance, with a 1997 general government deficit of less than 1% of GDP. In this regard it can be said that fiscal controls were a positive factor in restraining inflation, which was kept to about 7% in 1997 despite a mid-year devaluation of the Macedonian denar.

The IMF is deeply engaged with the GOM on all macroeconomic policy fronts, with the clear highest priority being price stability. Exchange rate policy is particularly critical in Macedonia's case, given the importance of trade in the overall composition of GDP. On one side, the value of the denar needs to be kept low enough to achieve price competitiveness for Macedonian exporters; conversely, the lower the value of the denar the higher will be the cost of imports. The GOM, with IMF advice, has been deftly balancing these factors. A 14% devaluation in June 1997 was accompanied by a fiscal austerity package, aimed at eliciting a pick-up in exports while containing the inflationary impact of increased import costs. At year-end 1997, however, the export response had not materialized as much as desired and there was talk of a further devaluation of about 8-10% to push export competitiveness.

Overall, while relatively low GOM budget deficits and low inflation suggest good macroeconomic management, total revenues available to the GOM are far below levels of government expenditure needed to accelerate economic growth. Among the more critical underfunded accounts (some of which relate to other sections of this report) are capital infrastructure investments, an expanded and better remunerated judiciary/court system for commercial law enforcement, and adequate budgets for regulatory agencies in the banking and capital markets sectors.

Two areas where near-term measures may help relieve fiscal pressure and increase available funds are tax administration and pension reform. There appears to be room for increased revenues on the tax side, particularly corporate profits tax. And new policies are needed to reduce the GOM's current and projected future pension payment liabilities.

Tax Administration

The tax system (income, corporate profits, sales, other), while it works reasonably well, lacks consistently applied and enforced procedures and does not reach all legally registered taxpayers. Because tax rates as a whole are already high, raising taxes further is not a viable option and would only constrain investment and growth. On the other hand, tax compliance and tax collection have room for improvement, through reduced tax avoidance/evasion behavior and more accurate calculation of true tax liabilities.

The bulk of income tax payments (plus contributions for pensions, health and other social insurance programs) are paid via withholdings on employee wages and payroll tax contributions shared by employers and employees. Many companies have accumulated substantial tax arrears due to inability to pay, ineffective GOM collection enforcement, or both. Some of the most recent measures taken to increase compliance, in the form of amendments to the Financial Operations Law and linked to IMF ESAF conditionalities, have been: (a) stringent requirements to pay social security and income taxes by the 25th of each month, regardless of whether wages are being paid; (b) new authority to seize monetary assets of non-complying enterprises; (c) a "one-time" incentive to clear tax arrears immediately at a 79% discount; and (d) new restrictions on cash transactions to help prevent unreported wage payments. Whether these or other such measures will have the effect of increasing net tax

payments remains to be seen, but they are an indication of the GOM's readiness to enforce greater compliance.

Corporate profits tax presents another picture. The current practice appears to rely on tax assessment formulas linked to prior year tax payments plus adjustments. Payments are made to the national payments bureau (ZPP), and this information is forwarded to the Public Revenue Office (PRO). The PRO then conducts audits on selected firms (perhaps 30% of firms according to PRO managers), during which a more true picture of company profits and tax liabilities are calculated, and the audits reportedly result in significant net additional tax payments. The weakness of this system is clear. With no comprehensive tax return required at the start of the process and no certainty that any particular company will be audited later, the natural perception in the business sector is that the playing field is not level, that some taxpayers will end up paying more than others, and that tax avoidance/evasion behavior is a rational response if competitors may not be held to the same rules.

With regard to sales taxes, the GOM has determined, in large measure due to imperatives to harmonize with EU models, to replace its existing sales tax with a Value Added Tax (VAT). A GOM committee to oversee this process has been functioning for several years, and a national VAT system was to have been in place by January 1, 1998. The apparent advantage of VAT, besides EU harmonization, is that it will help shore up the tax base (increase compliance and collection rates). It is argued that the close tracking of all sales transactions involved in a VAT system will pull taxpayers more closely into the net and reduce avoidance, but whether net VAT revenues will in fact exceed those collected under the existing system remains to be seen. A new VAT launch date of January 1, 1999 has been announced.

The key constraint facing each of these three principal sources of tax revenue is the weakness of the Public Revenue Office. The PRO, set up in 1994, is eventually to become the equivalent of an Internal Revenue Service, with independent authority covering all aspects of tax administration, i.e., taxpayer registration, taxpayer services, tax collection, audits, and enforcement. At present, the PRO handles only the audit function (and for legal entities only). Registration and collection appear to be essentially the purview of the ZPP, the PRO itself does not maintain a registrar of active taxpayers who should be paying taxes, and neither the ZPP nor the PRO maintain taxpayer accounts showing liabilities as well as payments. As noted above in the case of corporate profits tax, pursuit of taxpayers who potentially owe more in taxes is haphazard at best, and legal authorities of PRO officials to take collection actions are also not clear. To further stress the vulnerability of the system, current planning calls for the PRO to administer the new VAT, with all of the attendant tasks in tracking economic transactions, processing payments and refund calculations, etc., tasks which the PRO does not appear ready to take on.

The conclusion on tax administration is that significant strengthening of the PRO is needed if a modern tax system is to function fairly and efficiently. The Fiscal Affairs Department (FAD) of the IMF has prepared detailed analyses on what will be required, including substantial physical upgrading of PRO facilities in Skopje and at regional tax centers, as well

as computerization of tax account records cross-correlated with information available to the ZPP. The PRO also needs to be more clearly independent from the Ministry of Finance, with an independent budget. While MOF officials confirmed that amendments to the PRO statutes were in an advanced draft stage, no action has yet been finalized.

USAID/USG assistance on tax administration issues is limited to the funding of one resident advisor under the U.S. Treasury Inter-Agency Agreement (IAA). The advisor is working directly for the head of the PRO and is the only current expatriate assigned to this area. Short-term Treasury advisors are also available for work on specific tax administration issues. Much work for 1998 is focused on gearing up for VAT -- other VAT specialists from EU countries and IMF/FAD will also be engaged over the course of the year (see below).

Pension Reform

Pension reform is addressed under fiscal policy due to the significant impact of pension policy on both revenues and expenditures. The current Pension Fund (PF) is periodically in arrears requiring substantial transfers of government funds to cover deficits. The IMF is closely following the macro impacts of pension fund deficits, and current ESAF conditionalities include several short-term measures to both increase revenues (social security contributions) and reduce expenditures (retirement benefit payouts). On the contributions side, improved collections are linked to improved tax administration. On the benefits side, the main policy adjustments concern raising the retirement age and equalizing benefits received by men and women.

In the medium term, however, the current system will not be solvent, no matter what short-term measures are taken. An aging population, a still weak economy, high unemployment, payroll tax inefficiencies and other structural factors are largely beyond the GOM's control, and large future deficits can be projected for the current "pay-go" system. All analyses lead to the conclusion that long-term solvency problems will only be resolved by the introduction of a parallel private pension fund system, which would gradually reduce the burden on the state while promising increased returns and retirement security for pensioners.

Experience elsewhere suggests that new, mandatory private pension funds can work in Macedonia. The details outlining how the GOM can engineer a shift to a new two-tier system, with the PF still intact for existing workers and new workers largely covered by private pension funds, have been examined exhaustively under a current USAID activity (Carana). Due largely to this effort, the GOM now has a full plate of policy alternatives to consider in establishing an appropriate mixed public-private system, and USAID is collaborating closely with the World Bank on how to assist the GOM to move toward decisions and implementation. In fact, the current Carana work plan is geared to pension reform conditionalities in a World Bank Social Sector Adjustment Credit, which call for (a) interim reform of the existing PF and (b) the establishing of a framework for conversion to a mixed system by the end of 1998. The USAID assistance has also included extensive public education on pensions and exposure of key Macedonian counterparts to relevant pension

reform experience in Hungary and Poland.

Eventually, private pension funds can also be a significant source of savings for investment in Macedonia. There is thus a link between pension fund development and the capital markets, i.e., the need for a functioning stock exchange for buying and selling domestic securities. However, this element of pension reform should not be overstated. First, pension fund regulations will certainly require, as they do elsewhere, that the great majority of fund assets be in the form of government securities and not private equities. Also, because low-risk Macedonian investments (government as well as private securities) are likely to be insufficient to absorb the volume of funds available, a portion of funds will need to be invested overseas. The bottom line caution is that pension reform is driven primarily by fiscal and retirement security concerns and should be viewed only secondarily as a means to stimulate the capital market.

Other Donor Involvement:

The IMF is the major player on macroeconomic fiscal policy. Near-term fiscal measures contributing to price stability are a principal concern. Key structural reforms, such as the need to capacitate the PRO, have also been addressed by IMF/FAD advisors and provide a blueprint (as yet not acted on) for strengthened tax administration.

The World Bank is the donor most engaged on pension reform issues. The current Social Sector Adjustment Credit explicitly encourages movement toward a mixed public-private system. There are indications that the Bank may also be prepared to consider a future loan to cover part of the "transition" costs in diverting contributions from the PF to new private funds.

Recommendations for USAID Assistance Strategy:

1. Tax administration: USAID has no fiscal reform (Strategic Objective 1.2) program in Macedonia. The U.S. Treasury advisory program is a good beginning for constructive USAID/USG interventions on tax administration, but comprehensive institutional change resulting in a modernized PRO would require additional resources. For the moment, USAID should consciously fold the Treasury advisory assistance into SO 1.3 (add to laws/policies needed for a favorable business environment), and USAID should encourage other donors to provide the additional resources. Ironically, perhaps, the imperative to have a VAT system in place by January 1999 may trigger GOM requests for such assistance.
2. Pension reform: All indications are that decisions will be made toward the end of 1998 to move ahead with a parallel private pension system. USAID has built a credible record in assisting the GOM. Assuming a go-ahead, and assuming continued close joint collaboration with the World Bank (e.g., to cover transition costs and attach new

conditionalities to the next phase), USAID should be prepared to extend its pension reform technical assistance activity for at least another two years. The ENI Bureau Pension Reform Working Group can help bring ENI-wide experience to this area. This activity is commonly placed in SO 1.4 programs and this would be the logical place in the Macedonia strategy.

Banking Sector

Current Situation:

The importance of the banking system in economic reform cannot be overstated. In Macedonia, given the embryonic stage of capital markets development, the banking sector is the only mechanism in place for mobilizing domestic savings and financing economic growth.

The crucial role of strong banking sectors has been painfully highlighted by the financial crisis in Asia. Opinions differ over the possible approaches which would prevent these kinds of crises in Asia, in the ENI region or elsewhere, but one constant does exist: the critical importance of supervision and regulation of financial institutions. In Macedonia, the shock to depositor confidence during the 1997 banking crisis heightened the importance of technical assistance from USAID, and there are striking similarities between the banking system of Macedonia and countries like Indonesia, e.g., in the area of connected and insider lending. Market-based lending, improved transparency and accuracy in financial information, and reduced levels of non-performing commercial bank loans will only occur if recurrent connections-based lending is halted.

USAID has provided resident advisory assistance to the banking sector in Macedonia since 1994, most recently to the NBM to develop a professional bank supervision function and initiate building blocks needed for a proactive, risk-based supervisory culture. The current activity commenced in early 1996 and has involved both a bank supervision component and assistance to the Macedonian Bank Rehabilitation Agency (BRA) to accomplish liquidation of problem bank assets. The BRA component was completed in August 1997. The bank supervision component will expire on February 28, 1998 under Omnibus II but be continued under the Financial Services Development Project through September 1998, after which a new follow-on bank supervision activity needs to be in place (see Recommendations).

Another ongoing USAID-funded activity, implemented by the Center for Financial Engineering and Development (CFED), is the Macedonian Banking Operations Center (MBOC). The MBOC provides direct consultative advice to eight commercial banks and is an important source of institutional development. The activity benefits greatly from periodic consultation with the current banking supervision advisor. Continued USAID support for MBOC is recommended through 1999, after which MBOC should be self-sustainable or have

its activities carried on in other ways. The Macedonian staff working at MBOC is extremely capable and impressive and will be an important source of advisory services for the sector in the future.

USAID/Skopje is also funding a modest assistance program by the Financial Services Volunteer Corps (FSVC). The 1998 work plan for FSVC will be finalized shortly and will also be based on close coordination with the banking supervision resident advisor.

Status of Banking Institutions: Corporate Governance and Bank Privatization

There are 22 commercial banks and 18 savings houses in Macedonia. Massive structural reform occurred beginning in 1994 under a World Bank structural adjustment credit (FESAC). Non-performing loans and frozen foreign exchange deposits of households were removed from the sector's balance sheets and placed with the BRA. Despite this "fresh start" it is estimated that the current levels of bad debt may be approximately 50% of banking assets. The World Bank analyst who quoted this figure recognized that it was extremely difficult to come up with an accurate assessment due to the lack of reliable information. Further investigation indicates that this high level may also be due to the definition of bad debt in the NBM's regulations and a failure by banks to write off debt due to unfavorable tax consequences.

Stopanska Banka is the largest commercial bank with the equivalent of \$412 million in assets and a market share of about 40%. Stopanska is state-owned pending a planned partial privatization through a 55% equity purchase by Girocredit (Austria), the International Finance Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD). The consummation of this transaction will have a positive impact on the overall structural reform in the sector. There is currently no representation from a major Western foreign investor in any of the privatized banks.

The second largest bank, Komercijalna Banka, with the equivalent of \$178 million in assets, represents the paradox of the "fully privatized" banking sector in Macedonia. While it is technically fully private, about 11%, or a controlling interest, of the bank is owned by socially owned enterprises. The remaining institutions in the sector vary from the profile of Komercijalna to small truly privately owned and controlled banks which are making great progress toward modernizing. The full privatization of Stopanska and drastic improvements in the corporate governance of those institutions which remain in the control of socially owned companies are high priorities for the near term.

Capital requirements for both banks and savings houses will increase to 21 million denars as of January 1, 2001. Currently only three institutions meet current capital requirements and only eight or ten institutions are expected to meet the new capital requirement in 2001. It is critical that effective banking supervision by the NBM be implemented as the banking sector undergoes extensive restructuring in connection with this new regulatory standard. Skill levels within the commercial banks and savings houses vary but remain severely inadequate

overall and must be enhanced to match the challenges of restructuring.

The most notable missing element of reform, alluded to above, is the lack of effective corporate governance and enforcement of conflicts of interest standards and regulations. The FSVC will provide short-term assistance to the NBM during the first quarter of 1998 to develop new corporate governance and conflict of interest guidelines. The MBOC will provide training to the banking community on implementation of the guidelines subsequent to issuance by the NBM. Further assistance will be required by the Banking Supervision Department of the NBM for implementation from a regulatory perspective, i.e., the NBM must take the lead in eliminating these practices through effective enforcement of regulations on affiliated and connected lending.

Monetary Policy: Direct Controls vs. Indirect Mechanisms

The overriding objective of GOM macroeconomic policy, fully supported and encouraged by the IMF, is price stability. Because indirect mechanisms for controlling the money supply are not sufficiently available -- notably the absence of open market trading in government securities -- monetary policy must rely for some time to come on direct credit controls. Credit ceilings are and will continue to be imposed on a bank-by-bank basis to prevent inflationary expansions of credit. The artificial constraints of this practice will to some degree stall the adoption of market-based behavior by the banks; however, they should not prevent the banks from reducing credits to non-viable borrowers (connected lending).

The Research Department of the NBM has produced Annual and Quarterly Reports for the last three years which the NBM feels contain reliable macroeconomic data on which to base monetary policy. This year it will begin to implement some econometric models to evaluate trends and do forecasting. FSVC will assist in the development of these techniques and provide a diagnostic assessment of the level of capacity in the Research Department and the potential areas for technical assistance.

Bank Supervision

The development of a professional bank supervision staff is a permanently ongoing process. Despite difficult conditions, many of the elements of a basic supervision function are in place in Macedonia as a direct result of highly effective USAID efforts. The current USAID-funded bank supervision activity has almost reached the end of the first phase of what USAID generally recognizes as three phases of bank supervision development, in which on-site supervision capacity is established. The second phase, in which the on-site function is integrated with risk-based off-site analysis, must now be implemented, after which assistance can be directed to specific emerging issues (third phase).

Commitment by top NBM management is reflected by increased completion of on-site bank examination schedules on time. However, a more recent development (January 1998), involving the refusal by top management to split on-site and off-site supervision functions,

evidences the sensitive turning point the NBM has reached. The continued presence of the USAID resident advisor will be critical to guide the NBM into the second phase.

The advisor has the professional trust and respect of initially skeptical officials at the NBM and will guide the NBM leadership in a strategic planning session covering this topic in March 1998.

Deposit Insurance

The legal framework for the Deposit Insurance Fund (DIF) was established in Articles 94 through 107 of the 1996 Bank and Savings Houses Act. The DIF is a shareholding company owned by the banks and savings houses. This ownership is mandatory but according to the DIF Director this creates a potential legislative conflict because mandatory ownership in stock companies is prohibited. The law allows the DIF to assess insurance premiums from 1% to 5% of deposits annually. According to the Director the current assessments are at 1.5% at the direction of the IMF.

The critical fault line in the framework for this entity is that, according to internal procedures and the organizational documents for the stock company, the Fund must pay out 75% on all deposits of a failed institution. If the funds are not available within the Fund for a payout the member banks are then required to pay any additional obligations. The Fund's total assets are currently only at 1% of the required 15% of total savings deposits. This creates inherent systemic risk, to which Macedonia as a small country is already more susceptible.

The DIF has the authority to invest in Treasury Bills of the NBM, but must do this through a bank since only banks are authorized to purchase T-Bills. The DIF has no regulatory, enforcement or oversight authority over the insured institutions. It relies solely on information provided by the NBM about deposit levels to assess premiums.

The DIF has four (4) employees -- the Director, a computer specialist, an administrative staffer and a secretary. According to the Director, this staff is adequate to perform the functions currently mandated for the DIF, but only because it does not have full authority to conduct certain activities deemed essential by the Director such as monitoring of the financial condition of the insured institutions. The current make-up of the DIF Board, which includes members of the commercial bank boards, also precludes meaningful monitoring of the financial condition of banks because of concerns over competitors' access to confidential information.

FSVC will work with the banking supervision advisor on a medium-term project to provide recommended changes at the request of both the DIF and the NBM. Ongoing assistance may be required in this area subsequent to the FSVC activity.

Payment System

Like other former Yugoslav countries, Macedonia inherited a uniquely complicated payment

system. The widely recognized risk relative to the banking sector inherent in the current ZPP (Payments Bureau) is that it may cause liquidity problems for banks during the daily payment cycle. Essentially, ZPP can effectuate real-time transactions (within minutes) of payments while corresponding bank settlements lag due to less advanced technology. There is a need to evaluate the legal framework so that legally distinct functions such as tax collection and private payment transactions can be separated and banks can control settlement, possibly through an amendment to the Law on Banks and Savings Houses.

Effective January 1, 1996, banks, exchange houses, and the NBM all transferred giro accounts to the control of the NBM. ZPP still provides technical services but to some extent the banks are more able to control liquidity. Further development of this change allowed banks to check liquidity positions frequently during the day.

The NBM, in order to perform its monetary policy responsibilities pursuant to the Law on the National Bank of Macedonia, must have sole control over interbank transfers. To develop an inter-bank money market and allow the NBM to effectively exercise a supervision function over the bank's money-market activities, this function must be completely transferred from ZPP to the NBM.

Under the current real time gross settlement system (RTGS), unlimited credit risk for payments now lies with the NBM. This should be shifted to the commercial banks concurrently with both technical and legal control over the system. Lack of collateral instruments which banks can have on deposit to cover overdrafts within a net settlement system precludes the banks' ability to cover large net overbalances. Larger than necessary surpluses will have to be kept on hand but increased monitoring ability should reduce the level of reserves currently needed.

Legal and Regulatory Framework

Vastly differing opinions are held by key players in the NBM with respect to the legal framework for banks. The Vice Governor overseeing bank supervision feels that it is complete and that effective enforcement occurs. The Director of the Legal Department described the opposite situation. While the latter felt that the framework itself was probably adequate, although in need of some reform, she described the enforcement situation as non-existent. A cursory review of the framework reveals that it is most probably inadequate and enforcement both administratively within the NBM and in the courts must be strengthened. This opinion was echoed by the USAID advisors at the MBOC who stated that the center's banking clients were dangerously out of compliance with important prudential regulations and that the NBM was unable or unwilling to enforce compliance.

Thus, it appears that further analysis of the legal and regulatory framework for enforcement of banking regulations, including government takeover and liquidation of insolvent financial institutions and all other NBM authorities, should be undertaken (with a caution by the resident advisor that receptiveness to this in the NBM may be low). The Director of the

Legal Department has committed to providing USAID with a translation of major amendments to the banking laws and an analysis of the current state of bank specific enforcement. Evaluation of these pieces should provide a good idea of whether more action in this area is warranted.

Strengthening the ethics and conflict of interest rules applicable to NBM staff should also be implemented. Currently, USAID is implementing a Public Administration activity (scheduled to end in December 1998). The resident bank supervision advisor could draw on this work, which is fostering a popular sense of trust in national government through, among other things, codes of ethics and transparency in government operations. The banking crisis of 1997 severely shook the public's confidence in the NBM and government generally. Despite the positive steps taken to replace top management at the NBM, additional measures to improve public confidence will help attract domestic savings back into the banking system.

The Savings House component of the industry, sixteen institutions, represents another critical systemic risk to depositor confidence. Single founder ownership creates dangerously independent management with little or no corporate governance. Recommended amendments to the Bank and Savings House Act to address this situation should be carefully reviewed. The banking system and economy cannot survive another loss of household deposits without severe long-term economic implications. The savings house segment of the sector presents this possibility.

Other Donor Involvement:

The World Bank's assistance is focused on institutional capacity within the commercial banks and not on NBM bank supervision and regulatory functions. The Bank has just completed a review of credit analysis capabilities, prudential compliance and capital adequacy to determine which commercial banks will be selected as participating financial institutions in a new line of credit. All 22 banks applied and seven have been selected. Selected banks must have adequate Credit/Risk Committees and management information systems. The program contains a technical assistance component in credit analysis, loan underwriting and export finance, areas where coordination with the MBOC is in order.

The International Monetary Fund has provided assistance to the NBM in off-site supervision. A new IMF advisor has just commenced periodic short-term assignments and is working closely with the USAID resident advisor. The only other assistance to the bank supervision department, planned but not yet initiated, will be by EU/Phare, for short-term experts in targeted areas and finance of badly needed equipment. This assistance is expected to begin mid-1998. The EU/Phare program will contain a significant payment system component and it is not recommended that USAID directly assist in that area except on an as needed basis from the regulatory perspective at the NBM.

Recommendations for USAID Assistance Strategy:

1. The Mission should continue activities in bank supervision and bank operations. The two complement each other and provide the regulatory and private sector assistance that is needed. USAID should support the current bank supervision activity through 1998 and design a follow-on two-year project for 1999 and 2000. Support for the MBOC also should be continued through 1999, with consideration on how the MBOC could generate sufficient fee income to become self-sufficient thereafter. The synergies between the two activities are important for fostering concurrent regulatory development and appropriate levels of responsiveness within the commercial banking sector to those regulations.
2. It is also recommended that the Mission consider a new activity to develop a bank-specific legislative framework addressing banking crimes including money laundering, civil enforcement, bank-specific judicial development, and bank-specific mortgage and collateral enforcement. This activity could address Savings House, Payment System and Deposit Insurance issues to the extent needed. It may make sense and be feasible to integrate most or all of this agenda with the proposed new commercial law implementation and enforcement activity (see Recommendation #3 in Commercial Law Section).

Capital Markets**Current Situation:**

Macedonia's capital market might be characterized as having evolved to date in a structured manner. However, there are indicators that the present environment has many of the same problems found in the typical emerging market environment. Just as elsewhere, Macedonia's capital markets structure lacks regulation and oversight, strong institutions, transparency, and liquidity.

The good news is that a foundation of sorts is in place for further capital market growth and development. A Securities Exchange Commission was created in 1992 and, in principle at least, put into place before there existed any market participants to regulate. The adoption of the 1995 Law on Issuance and Trading Securities paved the way for the founding of the Macedonian Stock Exchange which was founded in 1995 and began trading in 1996. Also, the government of Macedonia has pledged to make capital markets development a priority as part of its economic development strategy.

The not so good news is that there is quite a lot which needs to be accomplished before Macedonia's capital markets can attract investors and achieve anything resembling vibrancy. Although the government of Macedonia claims that capital markets development is an

important part of its agenda, it has not put any financial resources into developing the regulatory structure necessary to create the investor confidence necessary for capital markets growth. Even though a Securities Exchange Commission (SEC) exists, it does not have the resources to pay any salaries for professional staff.

In addition to the need for institution building, there are a number of other issues for which timely resolution is critical. A few of these issues are the following:

- First, Article 290(2) in the Companies Law allows management in some companies to restrict the transferability of the shares of their publicly held companies. A restriction like this keeps potential investors away from a capital market.
- Second, the linkage between privatization and capital markets needs to be further examined and exploited. Current holders of shares in privatized firms lack a reliable outlet to sell their shares, and residual shares held by the National Privatization Agency could also be sold through the market. At present this is not occurring. There is no trading, and true market prices reflecting the value of the privatized companies are not apparent.
- Third, and clearly less susceptible to quick solution, is the low level of public trust in financial institutions. Substantial savings ("mattress money") are not flowing through the system, a situation only exacerbated by the March 1997 banking crisis. Although the government acted promptly and appropriately to resolve the crisis, confidence in banks and savings houses remains weak, and the distrust unfortunately extends to capital markets.

The Securities Exchange Commission

The Securities Exchange Commission (SEC) of the Republic of Macedonia was created in 1992 by presidential decree. Upon its creation, the members of the SEC helped write the Law on Issuance and Trading Securities (the "Law") which was adopted by Parliament in March 1995. Among other things, the Law outlines in broad terms the role, structure and authority of the SEC.

As laid out in the Law, the SEC is made up of seven members - a president and six commissioners. The members of the commission are appointed by the government for a term of seven years. The Law does not indicate if the terms of the members are concurrent or staggered. As of December 29, 1997, the SEC has a new president, Mr. Vladimir Kandikjan.

The SEC is essentially a part-time entity at this point. All the commissioners are employed full-time in other occupations. Of the seven members, several are professors, and the others work for the Ministry of Finance, the National Bank, and the Chamber of Commerce. Mr. Kandikjan is a professor of Economics in the Law Faculty of Ss. Kiril and Methodius University. The commissioners meet once a week where their main function is to review license applications. Their other activities to date have been to prepare legislation, as in the

case of the Law on Issuance and Trading Securities, and perform infrequent control and monitoring functions in the interest of investor protection.

Article 172 of the Law lays out a broad mandate for the SEC which, due to its lack of staff and funds, it is unable to fulfill. At this point, the SEC has no professional staff. There is one employee of the SEC, a secretary. The Law requires the SEC to establish "a department of qualified personnel," but this has not been done so far. The main reason this has not been accomplished is the lack of an operating budget. The government does not provide any funds to the SEC. The only revenues the SEC receives are from licensing fees, the bulk of which are for broker's licenses, and the amounts involved are minimal.

While the Law does list the sanctions for various violations, it does not specify how the sanctions are to be enforced and does not clearly grant the SEC the authority to pursue enforcement actions. According to the SEC, any enforcement action must go through the court system of the Republic of Macedonia. While this situation is certainly not ideal, the reality is that even if the SEC had enforcement authority, without any professional staff it lacks the capability to perform the necessary day-to-day surveillance functions which comprise regulatory oversight or pursue any enforcement actions on its own.

The SEC is presently preparing a new Law on Investment Funds. It plans to present a draft to Parliament in February 1998 and expects this law to be passed in three to six months. At that point it will be the responsibility of the SEC to draft the accompanying regulations.

Overall, in meetings with members of the SEC, it appeared that there is no clear understanding of what the role and responsibilities of the SEC are or should be. If the commissioners could better articulate the SEC's oversight role for Macedonia's capital markets, they could put greater pressure on the government to get the funding they desperately need.

There is some speculation that the SEC isn't being developed because the National Bank intends to incorporate securities regulation into its own portfolio, but this should not be an excuse to leave Macedonia's capital market unregulated. The authority of the SEC needs to be clarified, and funds and staff need to be put in place to exercise that authority.

The Macedonian Stock Exchange (MSE)

With the adoption of the Law on Issuance and Trading Securities, the MSE was able to come into existence. A group of banks and non-bank financial institutions banded together to begin work on establishing the MSE in March 1995. The MSE was officially founded on September 13, 1995 and began trading on March 28, 1996.

The MSE was established as a joint stock company. It operates on a non-profit basis, which is required by law. The MSE's membership is presently comprised of a total of 17 bank and non-bank financial institutions. At the present time, there are no independent brokerage firms

in Macedonia. All brokers are employees of banks, savings houses or insurance companies. While this is permissible by law, there are no requirements for these institutions to segregate their banking operations from their financial services operations.

In 1997 the MSE did the equivalent of \$20,237,926 in business with a volume of 8,030,323 shares traded in 6,525 transactions. However, most of the activity in 1997 took place in three months - June, October and December. As a matter of fact, December's activity was completely disproportionate to the other months - turnover was \$16,678,104 with 7,900,000 shares traded in 296 transactions. In general, trading on the MSE is quite minimal.

The MSE is an order driven market with open outcry trading. Trading takes place two days a week - Tuesdays and Thursdays - from 10 a.m. to 1 p.m. The MSE explains that it has a three-tiered listing structure. Companies listed in the "first market" must meet set minimum requirements with respect to market capitalization, number of shareholders, percentage of publicly held shares and financial reporting. In order to list in the "second market" the required categories are the same as for the first, only the minimum requirements are lower. Presently there are only two companies listed on the MSE. Both companies are banks which are members of the MSE and both are listed in the second market.

Other companies may trade on the MSE, but they do not meet the MSE's listing requirements and are therefore traded in the "third market." The MSE defines this "third market," which is made up of 66 firms, as an unofficial market having all the characteristics of an OTC market. There are no requirements of the firms which want their shares traded in this market, only a request that they submit financials and corporate action information to the MSE. The role the MSE fulfills in this instance is, by its definition, one of a central place where buyers and sellers can find each other. Because the MSE publishes a record of all transactions which take place on its premises, it provides a level of transparency to such OTC transactions which would not be found in situations where the buyer and seller conduct their transaction outside the exchange environment.

In addition, the National Privatization Agency (NPA) has an arrangement with the MSE whereby residual (unsold) shares still held by the NPA in companies which have been partially privatized can be listed for sale. However, at this point there are only three such companies listed on the MSE, and no residual shares for any of these companies have been sold. The problem is that the NPA will not let the market set the price for these shares, and the market is valuing the shares at less than the current ask price. The NPA is not willing to negotiate on price for fear of eroding the value of the outstanding shares.

The trading system at the MSE is home-grown. At this time the system performs purely a trade reporting function. When a broker receives an order, he notifies the computer operator who enters the order into the system. The order appears on the screens on the trading floor and then the trade can be executed. Upon trade execution, the transaction information is reported to the computer operator who enters the information into the system. A local software developer was used and the MSE feels the system doesn't adequately meet its needs.

Although the system does support the present trading volume and is adequate for increased trading volume, it lacks the capability to efficiently generate the reports the MSE feels it needs.

Clearance and settlement of trades on the MSE is handled through an arrangement with ZPP - Macedonia's nation-wide automated payment system. MSE members are required to deposit their shares with ZPP which then acts as the central registry/depository and clearing house for trades. Trades are settled in T + 5, with DVP settlement. The process of clearing and settling trades is as follows: brokers on the MSE conduct cash settlement via their accounts with ZPP; when the MSE receives confirmation of payment and receipt of payment from the brokers involved in the trade, they instruct ZPP to transfer share ownership.

One of the MSE membership's near-term goals is to establish the Macedonian Clearing Corporation (MCC) as a joint stock company owned by the members of the MCC. The reason for establishing the MCC is to provide a higher level of service to the members of the MSE than can be achieved through the clearance and settlement process outlined above. The technical services of the MCC would still be provided through a contractual relationship with ZPP; however, the MCC would be acting as the central registrar and depository in place of the ZPP and there would be no need for brokers to directly involve the MSE on a regular basis in order to settle their trades.

In addition, the MSE views itself as fulfilling the role of an self-regulating organization (SRO) for its members. It requires that brokers pass an exam on trading procedures in order to trade on the MSE and takes disciplinary action in cases where MSE rules are violated. So far, the MSE has taken disciplinary action three times in the form of issuing warnings to members. In each instance, the warning was issued based on a member's inability to fulfill its obligation on a trade.

The self-proclaimed long-term goal of MSE's management is to create an open, transparent environment for securities transactions which guarantees accuracy and fairness of price. The managers seem to be forward-thinking, they have worked well with the foreign consultants who provided technical assistance to the MSE, and they have definite ideas about the future direction of the MSE. A central issue is how to stimulate the capital markets of Macedonia so that there is sufficient trading volume to sustain a profitable exchange.

Commodities Markets

At this time there do not exist any commodities markets in Macedonia. The major commodity in Macedonia which is sold internationally is tobacco. All tobacco sales are handled by the trading house "Makedonija Tabak" which has been partially privatized. It is not clear when Makedonija Tabak might become fully privatized.

Other Donor Involvement:

To date USAID has not had any formal capital markets development program in Macedonia. However, the Financial Services Volunteer Corps (FSVC) has done some work including (a) a review of the trading rules and listing requirements of the MSE (performed by the president of the Toronto Stock Exchange and a former vice president of the Pacific Stock Exchange) and (b) a series of in-depth meetings in the U.S. on collecting, reporting and disseminating securities trade data for a representative of ZPP. In addition to FSVC, the United States Securities Exchange Commission (USSEC) has provided legal analysis and commentary on two draft Macedonian securities laws.

The most comprehensive assistance to capital markets institutions in has come from the British Know-How Fund (the "Fund"). Its consultants have worked most closely with the MSE, but this assistance is scheduled to end in April 1998. The Fund has had less involvement with the SEC and expressed its hesitancy to provide further assistance until the GOM shows genuine support of the institution. The support which the Fund is looking for is governmental funding of the operating budget of the SEC so it can, at a minimum, finally hire some professional staff. The Fund takes this issue very seriously and considers it will be a the key sign of GOM commitment to developing a sound capital market.

Recommendations for USAID Assistance Strategy:

1. The present situation in Macedonia demands that some near-term progress be made before USAID commits to a full-scale capital markets development activity. A "proceed with caution" approach is recommended. The near-term timeframe should be no more than another 12 months, or mid-1999. By that time there should be sufficient evidence that a comprehensive activity is justified (or not). Development of a new activity should hinge on demonstrated improvements in the areas addressed below.
2. Two policy issues requiring resolution in the near term are: (a) amendments to the Companies Law, Article 290(2) to remove restrictions on share transferability, coupled with more clear policy statements on how the capital market will be used to complete the sale of residual shares of partially privatized companies; and (b) GOM funding for the SEC at a level consonant with SEC capital market regulation authorities. USAID should assist as needed to help resolve these issues, using USSEC, FSVC or other advisory sources.
3. Other recommended near-term actions should be funded by USAID. The USSEC has invited the president of the Macedonian SEC to its annual training program to be held in Washington, D.C. this spring. If the SEC president is not able to attend, another commissioner should be invited in his place. Some initial support for the MSE in designing a public education program on how capital markets work should also be considered now. Basic education is needed to build public trust; more immediately, worker/owners of newly privatized companies need to have better information on rights and responsibilities of

shareholders. FSVC may also be a source for organizing additional training for groups of MSE staff and member/brokers on issues such as securities analysis and self-regulation. A final near-term action could be short-term assistance to the MSE in setting up the MCC, using the ENI Bureau contract with the National Securities Clearing Corporation (NSCC).

4. If a comprehensive new capital markets activity is to be designed, it should be 2-3 years in duration and start no later than the end of 1999. In-depth work requiring resident advisors would certainly be needed to develop a sound capital markets structure in Macedonia. The obvious initial candidate for more intensive assistance is the MSE. One objective would be the design and installation of appropriate computerized data and communication systems to enhance the MSE as a commercially viable trading mechanism. Training on various topics relating to broker-dealer operations would be carried out over an extended period. When the MCC is founded and operational, systems upgrades and training would be included as needed.

It can also be anticipated that actions will make sense on implementation of the Law on Investment Funds, which is expected to be in place, including portfolio accounting, customer accounting, customer reporting, regulatory reporting and disclosure, investment analysis and other topics. The same subject matter may be relevant to private pension funds that are expected to be licensed as part of the pension reform program.

Public education would be a major component; as mentioned above, the MSE wants to start now with that initiative. This could include a comprehensive corporate governance training program, encompassing shareholder rights, company by-laws, annual meetings, maintaining of shareholder records, transfer of share ownership and other matters.

For the SEC, assuming adequate funding is secured, sustained support could include at least the following: continuing guidance on the role of the SEC in regulating the capital markets; training and related internal organizational strengthening; development/passage of new laws/regulations as the capital markets expand; etc.

Commercial Law

Current Situation:

The GOM is in the process of reforming its commercial law framework, which it inherited from the former Yugoslavia. If this effort is successful, Macedonia will have a reformed commercial legal regime which facilitates commerce, trade, and investment. Greater transparency of economic and legal transactions, and clarification of the operation of laws--bringing about greater predictability of outcomes in dispute resolution procedures -- should lead to increased business confidence, investment and consequent growth.

Macedonia, newly independent in 1991, once constituted an autonomous republic within the former Yugoslavia. Pursuant to legislation adopted in conjunction with the republic's new Constitution, the laws of the former Yugoslav state were grandfathered into the present legal regime. Yugoslav law reflected Tito's unique blend of communist principles and market economics, which worked well enough through the early 1970s, but which afterwards foundered. The practical effect of all this is that virtually all of Macedonia's commercial laws (company, contract, collateral, bankruptcy, competition, etc.) need revision, not only in the text of the law, but in the way laws are implemented and enforced.

Starting in FY 97, USAID began a Commercial Law Project, managed by CFED, to assist the GOM in reforming commercial laws. In its first year, the project started working to revise the grandfathered Law on Obligations. This activity was expanded in FY 98 to provide technical assistance on a new collateral law and central registry for movable property, to reform alternative dispute resolution (ADR) mechanisms, and to create a National Information Center for Commercial Law (NICCL), the latter to eventually become a self-sustaining entity which will disseminate commercial legal information to the business and legal communities. The USAID-funded American Bar Association/Central and Eastern Europe (ABA/CEELI) has also worked on reforms in the judicial and legal professions, and other donors (World Bank, EU/Phare) have addressed bankruptcy and competition laws.

Key Commercial Laws Undergoing Reform

- ***Law on Obligations (L/O)***: This is a carryover from the former Yugoslav period which essentially served as the nucleus of a Commercial Code. Reform is already underway, with the GOM planning several phases of revisions. Unfortunately, phase one (simplest of all planned stages since it merely deletes socialist terminology and revises the sections of the L/O concerning interest rates and monetary transactions) is already behind schedule. The Ministry of Justice has not yet submitted the phase one package to Parliament for its first reading. Initial projections by CFED that reform of this law could be completed in two to three years now appear too optimistic if current trends are extrapolated.

- ***Collateral Law***: Owing to a specific World Bank loan conditionality, a new law was finally drafted and presented to Parliament for its first reading in January 1998. The objective of this new law is to improve potential borrowers' access to credit by allowing the collateralization of movable assets (inventories, receivables, vehicles, fixtures, farm equipment, etc.). Banks are now loath to extend credit on the basis of collateral, whether movable or immovable, because of the courts' general predisposition to protect/safeguard debtors. For instance, at present loans fully collateralized by real property take an average of two to three years to foreclose and collect.

- ***Companies Law (Law on Trading Companies)***: This law lays out the basis for company formation, corporate governance and the respective rights of shareholders, employees, and managers. Some aspects of this law are problematic, notably Article 290(2) which effectively restricts shareholders' transferability of holdings (see section on Capital

Markets). Pursuant to recent amendments to this law, all companies must also re-register by December 31, 1998, which places an added burden on existing businesses.

- ***Law on Competition/Anti-Monopoly***: With an emerging market economy, the GOM is looking to reform its laws in this area. The EU/Phare program is gearing up a technical assistance program covering this subject area in order to harmonize GOM law with EU directives.

- ***Bankruptcy Law***: Through assistance from the World Bank and USAID, the GOM recently enacted a new law on bankruptcy scheduled to take effect in May 1998. The court system is currently inundated with some 8,500 cases because the existing bankruptcy law provides for automatic filings by the central payment agency (ZPP) requesting the courts to declare as bankrupt any commercial accountholders who are in default for over 60 days. The new law provides for both voluntary and involuntary bankruptcy and lays out the roles of creditors, judges and trustees. There is an identified need for an additional 30 judges and approximately 300 trustees to be trained in aspects of the new bankruptcy law.

Experience with law drafting has been somewhat disappointing -- the delay in revising the L/O being a prime example. There is no single point within the GOM which exercises overall responsibility for shepherding commercial legal reforms from the drafting stage to enactment and implementation, and the GOM itself lacks the requisite expertise. Parliament has no legal drafting staff and the MOJ employs a mere 34 lawyers. This is partly compensated by legal talent in the Law Faculty within the University of Ss. Kiril and Methodius. The GOM contracts out much of its legal drafting work to professors at the Law Faculty, but there appear to be few incentives for producing complete drafts quickly, and some experts lack sufficient insight into how laws should be geared to practical business reality as much as legal theory.

One encouraging sign, actively promoted by CFED, is an emerging system to have business representatives and other affected interest groups comment on draft legislation. It is hoped that this process will enable Parliament to enact laws that reflect the concerns of businesses and individuals expected to benefit from them.

Implementation & Enforcement of Laws

GOM mechanisms for effective implementation and enforcement of laws, whether new or old, are weak. This is where strengthening is required on an urgent basis, if commercial laws are to take hold. In order to make legal reforms sustainable, all players in the legal system need to become familiar with the laws, whether through formal training or learning by doing. The need is not limited to judges and lawyers. Other groups, including business owners, police investigators, prosecutors, and the public at large need to be educated. The good news is that several non-government organizations, such as the Macedonian Judges Association (MJA) and the Macedonian Business Lawyers Association (MBLA), representing the interests of the judiciary, lawyers, and other groups, are emerging as dynamic conduits through which public

education and information about commercial legal reform may be channeled.

-Judicial System: One of the most significant impediments to implementation and enforcement of laws is the overall quality and administration of the Macedonian judicial system. There was a major reorganization of the court system in 1993, which abolished the specialized courts which existed in the former Yugoslav system and created a new three-layer system: (1) courts of first instance; (2) courts of appeal; and (3) the Supreme Court. A separate Constitutional Court hears cases related to interpretation of the Constitution. Courts are divided into criminal and civil divisions. The civil divisions hear commercial disputes. While Macedonia's 650 judges have general jurisdiction over all kinds of cases, some allowance for specialization has been made, notably for some 30 judges who hear bankruptcy cases.

A frequent complaint heard in the business community is that court decisions are not enforced. One key reason for this is that judges lack contempt power, which is probably the single most important tool that U.S. judges have to enforce their decisions. For example, a new Law on Enforcement Procedures (also referred to as Law on Enforcement of Claims) was adopted in the latter half of 1997 but was criticized by many as not going far enough to increase creditors' ability to seize debtors' assets if a debtor defaults.

Among the key problems associated with the court system are jammed dockets, low public esteem, low pay, limited independence from other branches of government, lack of enforcement power, and a need for training.

- *Jammed Dockets:* The courts are overburdened with excessive case loads. Macedonians say that a typical court case requires 2-3 years to wind its way through the court system. ABA/CEELI lawyers state that traffic tickets and automatic bankruptcy filings account for much of heavy court calendar. The Chairman of the MJA attributes the problem more to the reorganization of the judicial branch. Whatever the reasons, the courts lack the infrastructure -- facilities, equipment, computerized files, back-office support -- to operate efficiently.

- *Public attitudes:* There is a widespread low opinion of judges for any number of reasons. Among the legal community, they are looked down upon because according to old Socialist precepts they were mere clerks who applied laws. Typical of many European countries, judges are selected straight out of law school. They are also relatively low paid. Among a public which is unacquainted with a Rule of Law society, judicial decision-making is popularly viewed as a corrupt venture. It is thought that judges sway their decisions according to the influence of telephone justice, connections, bribes, or threats. Anecdotal evidence from several foreign investors in Skopje confirms this conclusion. But reliance on connections is a poor substitute for a transparent and reliable judicial branch, and it also undermines the establishment of the Rule of Law.

- *Judicial independence & administration:* While the judicial branch is

ensconced in the GOM constitution as a separate branch of government, day-to-day control of administrative responsibilities rests with executive branch organs, notably the Ministries of Justice and Finance. The MJA is lobbying the GOM to provide the judicial branch with its own line item in the federal budget. Its eventual goal is for the judiciary to independently administer itself.

- *Judicial Powers/Protection:* Macedonian judges lack contempt power, which is probably the single most important tool that judges ultimately have to enforce their decisions. Judges are also dependent on local police to provide protection.

- *Role of Precedent:* With Macedonia being a civil law country, higher court precedents are not controlling on lower court decisions. That said, it is nearly a universal principle that judges do not want their decisions to be overturned on appeals to higher courts. Therefore, they will not choose to contradict the opinions of higher courts. In Macedonia's case, however, court decisions are not regularly published and distributed to the legal community. The MJA, working with ABA/CEELI, is developing an internet-based system of publishing opinions.

- *Judicial Training:* Continuing judicial education is a haphazard affair in Macedonia. No institution exists that is devoted to continuous upgrading of judicial skills in general or commercial laws in particular.

- *Alternate Dispute Resolution (ADR):* A program of ADR reform is usually undertaken when the country's judicial system is unable to expeditiously and competently handle litigation. ADR can include formal arbitration, conciliation, or mediation. Owing to the Macedonian court system's jammed docket, its slow resolution of cases, and the unfamiliarity of its judges with newly introduced commercial concepts, ADR would hold out some promise for circumventing the court system in order to quickly adjudicate commercial disputes. The USAID project has been working on an ADR program which would reform the arbitration system, but it has not met with much success. The reason stems mainly from the fact that Macedonia has an existing ADR system in place, which operates under the umbrella of the Economic Chamber of Macedonia. The Chamber is a government-sanctioned organization, which by law many Macedonian businesses must join and pay fees to. Nearly all our interlocutors, whether in government or in the business community, agreed that the Chamber is an obstruction to conducting trade and investment. While the Commercial Law Project has produced a series of proposals to reform the Chamber's ADR procedures and make arbitral decisions more easily enforceable, the Chamber lacks sufficient motivation to embark on a program of implementation.

Training in other forms of ADR, like mediation and conciliation, are being explored by CFED and the MBLA as other potential forms of ADR, but the overall conclusion is that there will be no substitute for the need of the judicial system itself to be significantly strengthened.

Other Donor Involvement:

USAID, through the CFED project and ABA/CEELI, is a principal donor working on commercial laws and related judicial reform.

The World Bank has expressed great interest in devoting funds to upgrade the judicial system. If the GOM agrees that a significant new initiative is needed to strengthen commercial law implementation and enforcement (see Recommendation #3, below), a combined USAID/World Bank appears feasible.

EU/Phare is also heavily engaged on several legal reform fronts, including programs to remove legal impediments to the creation/operation of SMEs, to harmonize GOM laws with EU directives (particularly in the area of competition policy), and to address land law issues (Land Policy and Cadastre Project).

Recommendations for USAID Assistance Strategy:

1. USAID should initiate a dialogue with the GOM concerning the problems that bottlenecks in legislative drafting and enactment are causing. If possible, this discussion should be made in the form of a coordinated appeal with other international assistance providers (USAID, World Bank, EU/Phare, and British Know-How Fund). The point is to have the GOM implement better managerial control over the commercial law reform process. This problem, if left unresolved, will only delay enactment and implementation of essential laws, and it will stymie the realization of two larger GOM objectives: association (and eventual membership) with the European Union and accession to the World Trade Organization. Wherever possible, technical assistance activities which involve legal drafting should be tied to World Bank loan conditionalities in order to ensure that deadlines are met. This will require coordination with Bank officials in both Skopje and Washington.
2. If the GOM makes a sufficiently positive response, then USAID ought to see through to completion its technical assistance related to the revision and/or enactment of the following laws:
 - Law on Obligations (being reformed in stages); and
 - Collateral Law (draft recently completed).

On the other hand, while this report identifies a systemic weakness in that Government bodies lack staff with legal skills, a new initiative to provide assistance in creating a legal drafting apparatus in the Parliament or the MOJ would be premature and is not recommended at this time.

3. A new 2-3 year USAID-funded initiative should be undertaken with respect to implementation and enforcement of new commercial laws (and possibly banking laws). The

program would ideally start in FY 99 under a competitive contract, with complementary support by continued ABA/CEELI liaisons. A principal focus would be on training and public education for judges, court officials, lawyers, and other affected groups in the following laws, at a minimum:

- Revisions to the Law on Obligations (as enacted);
- Law on Trading Companies (as amended);
- Bankruptcy Law (to take effect 5/98);
- Law on Enforcement Procedures (enacted); and
- Collateral Law (enactment expected in 1998).

The initiative would also include a substantial component for reforming the administration and organization of the judicial system. Problems subject to policy and technical assistance solutions include: docket management, public attitudes, independence, security and protection, dissemination of court opinions, regularized training, low judicial status and pay. Other requirements (improvement of physical facilities, equipment, communications technology, etc.) would ideally be provided by the World Bank.

World Trade Organization Accession

Current Situation:

The GOM is expressing renewed interest in acceding to the World Trade Organization, whose headquarters are in Geneva. WTO accession will provide many benefits for businesses which trade with or out of Macedonia. It would help integrate Macedonia into the world trading system (and -- notably -- away from Serbia and Montenegro), encourage Macedonia to undertake needed reforms in its overall trade regime, facilitate added trade and investment, and promote the development of competitive Macedonian businesses.

Macedonia, newly independent beginning in 1991, once constituted an autonomous republic in the southernmost portion of the former Yugoslav state. Access to international markets is particularly important for Macedonian businesses and consumers both because of the dramatic shrinkage in the accessible domestic market and because of Macedonia's landlocked position in the southern Balkans, surrounded by Serbia, Bulgaria, Greece, and Albania.

The placing of sanctions on Bosnia and on Serbia and Montenegro by the international community in 1991, and of an economic blockade by Greece in 1994 (both of which have since been lifted), served to seriously isolate Macedonia from international commerce. Both Serbia and Greece connect with Macedonia's principal transportation corridor and also serve as major markets for exports. Linkages with and markets in Bulgaria and Albania are less well developed, although some coordinated international development efforts are underway to improve this situation.

The Name Issue

Upon Macedonia's independence, Greece raised objections concerning the GOM's use of the word "Macedonia" as its name. A great number of Greeks consider themselves Macedonian, but distinct from the ethnic group comprising the majority of the population in the new Republic of Macedonia. Greece sought to diplomatically isolate the GOM by refusing to establish diplomatic relations with it, and by attempting to exclude it from membership in international organizations, like the United Nations. Matters reached a climax in 1994 when Greece imposed an economic blockade, denying Macedonia access to the port of Thessaloniki and to the Greek market. Eventually, the impasse was resolved and an Interim Accord was reached in September 1995, whereby less-than-full diplomatic relations were established between the Greece and Macedonia. In addition, a formula was created allowing Macedonia to join international organizations as the "Former Yugoslav Republic of Macedonia" (FYROM). It is reported that ongoing negotiations between Greek and Macedonian diplomats in New York may soon bear fruit in normalizing this anomalous situation.

WTO Accession Requirements

World trading rules have evolved over the past 50 years under the General Agreement on Tariffs and Trade (GATT). The Uruguay Round of Multilateral Trade negotiations created the WTO on the basis of GATT and over 20 Multilateral Trade Agreements (MTAs) and four Plurilateral Trade Agreements (PTAs) negotiated under the Uruguay Round by countries with widely disparate economic and cultural systems. The MTAs, whose observance is mandatory for all WTO members, address a wide variety of structural issues affecting trade and business, including agriculture, product standards, customs procedures, services, investment measures, subsidies, and intellectual property. Observance of the PTAs, which cover government procurement, civil aircraft, dairy and bovine meat, is optional.

Three basic principles under GATT must be followed in any legislation affecting trade: (1) Most-favored nation (MFN) treatment, whereby concessions negotiated between two members are applicable and/or available to all other members; (2) national treatment, whereby foreign businesses and persons must have the same rights and privileges of domestic ones; and (3) transparency, whereby laws, regulations, and dispute resolution mechanisms must operate in a predictable and open manner.

By deciding to accede to the WTO, Macedonia would be committing itself to accepting these basic rules of conduct by the time of accession. Although some latitude and flexibility are available, fundamentally no legislation or subsequent implementation of that legislation may be inconsistent with GATT or the MTAs. This is why the Office of the United States Trade Representative (USTR) calls the accession process a "technical" one, rather than a "political" one. Were the process merely political, then an acceding country which did not have a WTO-consistent foreign trade regime would be immediately subject to WTO dispute settlement procedures.

WTO accession will require many serious changes in Macedonia's legal regime, and in the ways key ministries, agencies, and the judicial system operate. *Therefore, WTO accession will require that a considerable amount of political will by the GOM's leadership be applied on a continual basis to see the necessary changes through to implementation.*

Status of GOM Accession

According to a report from USTR, the GOM applied for GATT observer status in October 1993 and for WTO accession in December 1994 using FYROM as its name. In July 1996, Macedonia submitted to the WTO Secretariat its Memorandum of Foreign Trade Regime, which outlined its trade laws and practices according to a specified format.

The GOM's application was apparently frozen at this point due to the Name Issue. The WTO Secretariat did not take any official action (i.e., translation and circulation to WTO member countries) on this and other subsequent documentation. The apparent reason for this was that the Macedonian documentation did not use the FYROM formulation. As the WTO is an organization which requires consensus in decision-making, Greece's longstanding objections to the use of the word "Macedonia" as Macedonia's national name apparently blocked the WTO Secretariat from moving forward in circulating the documents and organizing a Working Party Group.

A Macedonian Ministry of Foreign Affairs (MFA) official stated in January 1998 that it is a matter of domestic Macedonian law that all official Macedonian documents must use the term "Macedonia", rather than the FYROM formulation. According to him, pursuant to the Implementation Agreement, it was agreed that GOM official documents would continue to use the "Republic of Macedonia" appellation, but also that the GOM would officially respond to foreign governmental correspondence which used the FYROM formulation. He said he was at a loss as to why the WTO Secretariat could not circulate GOM documentation. Moreover, he implied that the GOM's hands are tied and that it could not modify accession-related materials to reflect the FYROM formulation.

Another related issue is that Macedonia was granted use of the prefix marks "MK" and "MKD" for ISO 9000 quality standards. Greece, which already has objections to Macedonians' use of "MK" as a national mark on automobiles, apparently has objections to use of similar marks on exported products.

Other Donor Involvement: To date, neither USAID nor other donors have been directly engaged in any comprehensive assistance activity related to WTO accession.

Recommendations for USAID Assistance Strategy:

1. A new USAID-funded program of technical assistance (minimum 2 years) dedicated to WTO accession ought to be seriously considered, to start in late FY 98 or early FY 99. This should be a high priority given (a) the critical importance of trade in the Macedonian

economy and the reliance on export-led strategies for economic growth, (b) the more accelerated integration into the global economy which should follow from WTO membership, and (c) the positive correlation between compliance with WTO accession requirements and all other market reform agendas.

A requirement for any program would be the provision of technical assistance to the GOM on both (1) process (i.e., the mechanics of WTO accession, which include preparation of WTO questionnaires and answers to WTO members' questions, which is more fully described at **Tab A**), and (2) harmonization (i.e., making GOM laws and practices consistent with WTO commitments, which is more fully described at **Tabs B and C**). Such a program would necessarily require placement of a long-term advisor, preferably resident in the government office which is responsible for the accession effort. This advisor would provide day-to-day guidance on both process and harmonization. The advisor's efforts ought to be supplemented by a series of short-term experts covering specialized fields, like Intellectual Property Rights (IPR) enforcement, product standards certifications, and agricultural subsidies.

2. In order for an assistance project to be effective, the GOM must resolve two important issues:

- (a) The GOM must resolve the Name Issue with the WTO Secretariat and WTO members; and
- (b) Macedonia must clearly designate and empower a single focal point within the Government which would have overall interagency responsibility on accession issues.

Enterprise Promotion/Development

Current Situation:

1. Policies affecting the growth of SMEs:

SME development is a priority according to the GOM Ministry of Economic Affairs because new businesses are needed to relieve unemployment levels resulting from privatization and restructuring. According to the USAID-funded Institute of Public Administration program, the existing private sector is still 35% over-staffed, the public sector is 25% over-staffed, and there is 50% total unemployment (34% official). New SME creation or expansion holds some promise for increased employment. Remittance income coming from Macedonians working abroad is significant, but this is only a partial solution and it carries a negative "brain-drain" effect on the Macedonian economy.

Policies (or lack of policies) which impede enterprise promotion and development are diverse. An amendment to the Companies Law will require existing businesses to re-register with the Government by 1/1/99. Another impediment involves the bureaucratic red tape in obtaining business licenses/permits, such as making a change to existing business premises where prior "illegal" construction was performed (no earlier building permits). SMEs often have to deal with inter-ministry disputes on such matters. The absence or poor implementation of key commercial laws also inhibit the growth and prosperity of SMEs. An example is the lack of a functioning collateral law needed for business loans. Customs regulations are also applied unevenly; there are excessive penalties and delays for "legal" importers and exporters, and no penalties for "well connected" legal traders or for "gray market" operators. It is estimated by some MBRC clients that the gray market represents over 60% of the Macedonian economy, a situation which may well be tolerated by the Government in order to reduce economic pressures.

Macedonia's adoption of international accounting standards (effective 1/1/98) is likely to benefit SMEs in the long-term because the standards are simpler than current practices and more universally compatible. In the short-term the regulation could exert pressure on SME resources. Initially, there will be no exemptions for SMEs in meeting the accounting requirements, but exemptions may be granted for auditing requirements.

A new government incentive was enacted in 1997 to lower SME labor costs and create conditions for employment growth. SME employers can take a two-year holiday on the payment of social costs (pension, health, unemployment contributions) of newly hired employees. The GOM expects (optimistically) that this incentive will help create up to 50,000 new jobs. The World Bank anticipates some abuse of the program, but in time some new job creation may be stimulated.

An overall finding on policy impediments is that, at least until recently, there does not appear to have been a concerted GOM effort to address policy aspects of SME development. The newly created National Enterprise Promotion Agency (NEPA) may play this role in the future.

2. Access to Financing

The Macedonian banking system is currently undergoing a major consolidation program, and access to loans remains a principal obstacle for SMEs which need financing for seasonal production costs, customer credit, supplier discounts, business expansion, etc. Problems range from lack of collateral to cronyism in bank lending and unfair adjudication of professionally prepared SME business plans and loan applications.

USAID, the World Bank and other donors concur that debt finance is available to microenterprises and large businesses (including larger SMEs), but not for SMEs needing between the equivalent of \$20,000 and \$200,000 in working capital loans. As one means to fill this gap (but still biased toward the larger SMEs), an \$8 million Small Enterprise

Assistance Fund (SEAF) is being set up in Macedonia. A USAID grant will provide \$4 million to the Fund, to be used primarily for SME investments and, in the early years, support for operating costs. Up to \$1 million can be applied to other expenses related to business assistance services for investee firms and related purposes. SEAF will seek other investors to reach full capitalization, targeted at \$8 million, by the beginning of the third year of operations. Other investors will likely include bilateral and multilateral international finance institutions and, where appropriate, private sector investors.

The Fund will invest through combinations of equity, quasi-equity and debt instruments in amounts generally between the equivalent of \$50,000 and \$350,000. The average investment will be approximately \$200,000 in aggregate financing per investee enterprise. Targeted businesses will be generally characterized by having, prior to investment, from 10 to 150 employees and from \$150,000 to \$1,500,000 in annual revenues. Investments will be made only in majority Macedonian-owned enterprises. SEAF anticipates making approximately 40 equity deals, and will target a minimum-maximum equity positions of 25% and 49%, respectively. Local law may not allow SEAF to lend to its clients as an investor. SEAF will extend to their clients government tax breaks (customs relief, and/or reduction in taxation) based on the extent of their partnering with foreign investment. SEAF will initially target agribusiness, light industry, and essential business services. Fee structure will include a 2% up-front fee, plus a 1% annual fee charged on commitments, although each investment will vary depending on individual circumstances. SEAF intends to work closely with MBRC and other NGOs, and is reported to already have a large pipeline of applications.

Other donor-funded SME and microenterprise programs are described below:

-- EU/Phare is planning to cooperate with NEPA to provide loans of up to the equivalent of DM40,000 through commercial banks. NEPA was established by the GOM in January 1998, initially as a division of the National Privatization Agency. The loan program, which may be later expanded, will target new and existing SMEs with 20 employees or more. Loans will be for five years, (six months grace period), and a 12% interest rate. Funds will be channeled through the NBM to commercial banks for on-lending. SMEs will be required to have collateral and/or guarantees for their loan applications which are to be made directly to NEPA. NEPA will provide the necessary approval/disapproval for a loan application to proceed with a local bank.

-- For microfinance, the principal USAID-funded program is run by Opportunity International (OI), known in Macedonia as the "Moznosti Microfinance Facility." Moznosti has a successful track record in microlending (total loans is 289). The number of loans have increased from 34 in 1996 to 243 in 1997. Rates are slightly higher than the reference rates (real market rates are hard to predict due the many levels of lending activities). Moznosti receives 100 client applications per month, 25% of which are funded. The repayment rate is currently above 96%. Launched in 1995, total funding for the Macedonia program is US\$2.8 million of which \$2.1 million is contributed by USAID and \$0.7 million by OI and its affiliates. Tutunska, a local bank, operates OI's fund for a fee of one percent on outstanding

loan amounts. Loans are of two basic types: working capital and equipment leases.

Moznosti plans to expand regionally. EU/Phare and the British Know How Fund will be providing 45,000 pounds to fund Moznosti technical assistance and credit lines in three Western Macedonian cities. Moznosti already operates a facility in the Eastern Macedonian city of Kochani. The Dutch foreign aid organization has suggested providing funding for micro and small lending programs to Moznosti and other NGOs through MCIC, a PVO organization in Macedonia. The organization is moving toward operational sustainability (income/operational costs) which has increased from 11.5% in 1996 to 46% in 1997 (76% without reserve for loan default). These levels have been accomplished by increases in loan origination fees and interest rates.

-- Open Society Institution (OSI) has established a small credit fund to serve micro-level private enterprises and agribusinesses. OSI has arranged initial capital of \$100,000 and the participation of a local commercial bank to run the program. Since 1995, 38 loans have been approved, with a credit ceiling of \$5,000, using physical assets as collateral. There have been no defaults in the past 18 months, and the credit fund has a 75% on-time payment record. A second \$500,000-\$1 million grant is now being considered.

-- WOCCU originally planned a rural credit program in Macedonia by establishing Savings and Credit Cooperatives (SCC). The program was aimed at utilizing "mattress money" and increasing savings and credit services to rural residents including workers, small businesses and farmers, which banks have been reluctant to cover. The GOM has not supported WOCCU's approach, "within the current orientation for further development of the banking system." However, the (inadvertent) exclusion of SCCs in the 1993 banking law amendments is now the subject for appropriate expert review.

WOCCU's alternative plan has been to establish a Savings House with FULM, an NGO, and apply to the Central Bank for a license. FULM was established in December 1996 with 44 members, which has since increased to 163 and growing. Capital requirements for a Savings House are presently set at DM300,000, but the Central Bank may increase this amount before granting the license, expected in early 1998. According to WOCCU, branch offices would then be progressively established, beginning in June 1998. The \$4.1 million USAID grant to WOCCU has the potential to mobilize up to \$860,000 in savings and up to \$620,000 in loans outstanding, and to reach over 4,000 members by the end of the project. WOCCU's proposal to establish a savings house has been complicated by a scandal in October 1996 involving the collapse of TAT, a major savings house with assets of DM100 million. There are currently 18 savings houses in Macedonia (75% in Skopje). Eleven of these concentrate on savings and loans activities, the remaining concentrate on investment club activities. Membership in FULM is well diversified.

3. Access to Business Services

The USAID-funded Macedonia Business Resource Center (MBRC) was established in 1995 to

help private Macedonian businesses improve their financial management, operations and marketing, and to enhance their ability to raise capital and attract joint venture partners. The program is operated by Crimson Capital under contract to USAID.

Recent management decisions at MBRC have resulted in a number of significant changes in the present and future direction of the organization: (a) local Macedonian staff have been given the primary responsibility for account management (previously ex-pats), with access to special advisors in the form of executive volunteers; (b) MBRC has begun an active program to trim down the size and cost of the organization; and (c) MBRC is beginning to look at sustainability after USAID funds are removed, either through fee income which would allow MBRC itself to continue, or (more likely) through positioning current Macedonian staff to form or join other private for-profit business service firms later on.

The Small Business Division of the Ministry of Economic Affairs is pleased with MBRC support of SMEs, but would like to see regional business advisory service centers established outside Skopje. MBRC consultants are currently involved in short-term assignments in two principal regions; however, there are not sufficient reasons or resources for MBRC to provide permanent regional presence.

The British Know-How Fund, which has made support for SMEs a principal focus, is initiating new activities offering a full range of business support services, similar to the MBRC. It has announced plans to establish three regional business offices in Tetovo, Gostivar and Ohrid, located in the western region of the country. These cities have been chosen for good levels of SME entrepreneur activity and a steady in-flow of remittance monies from Albanian and Macedonian guest workers in European countries. In the opinion of MBRC, the timing is not right for this undertaking and there is doubt that the new centers will be established as planned. Two thirds of the Know-How Fund annual 1.1 million pound budget will be devoted to the centers for the next 3-4 years. Oversight will be handled from Skopje, and each center will be staffed by two ex-patriot business mentors to be replaced in two years by local Macedonians. Expressions of support have been received from the Dutch and Swiss aid agencies. The three centers will eventually join with four other EU/Phare centers planned under the NEPA.

4. Trade and Investment Opportunities

The Economic Section of the U.S. Embassy has begun preparing monthly economic reports, which should be a valuable aide to trade and investment planning. Impediments to trade and investment, particularly of a political/legal nature, involve:

- Incomplete business laws
- Inconsistent and cumbersome customs regulations
- Perceptions of political risk
- Continued presence of UN force
- Lack of understanding on how to do business in

Macedonia

- Insufficient trade and investment promotion

(i) Trade Expansion: As a land-locked country, Macedonia's unrestricted access to trading partners is critical. Historically, within the former Yugoslav federation, Macedonia has been a producer of bulk commodities, both agricultural and manufactured components which were shipped elsewhere for value added processing and marketing. Future trade activities should focus on applying modern processing, infrastructure and expertise to gain maximum value from the goods produced in Macedonia for sale on world markets.

Neighboring countries offers SMEs, and the private sector as a whole, the most immediate trade opportunities. A border dispute with Greece has restricted the flow of goods to and from Macedonia which in turn has increased the importance of Bulgaria, Albania and the former Yugoslav republics as trading partners. Customs regulations remain cumbersome and unevenly applied which penalizes legal trade; however, some progress has been made by standardizing customs fees at 1% for trade between the former Yugoslav Republics. SMEs report that standardization has resulted in some degree of inequality for Macedonian businesses, particularly where other republics such as Slovenia have better access to Western European markets. Customs also allow duty on leased equipment to be spread over the (maximum) five year life of lease. WTO accession remains a priority.

The British Know-How Fund plans to introduce ISO 9000 quality standards in approximately 20 companies located throughout the country. Training will be provided for a total of eight consultants and four auditor/assessors in ISO 9000 quality standards. The project will be implemented through the Export Support Unit of the Economic Chamber of Macedonia. Current Macedonian law requires all business enterprises to become members of the Chamber, an organization which offers few benefits. (An independent chamber failed in start-up two years ago.)

(ii) Foreign Investment: The GOM reports that the total value of foreign investment in Macedonia, since 1991, is only \$55 million. Among the recent investments are projects in the pharmaceutical, computer software, textile exports, and hotel refurbishment sectors. The GOM has enacted new legislation to establish a favorable environment for foreign investment, which together with other laws should create incentives to attract foreign investors while protecting legitimate Macedonian interests vis-a-vis foreign capital. The U.S. Embassy reports that foreign investment continues to be somewhat discouraged by GOM actions.

The Government is establishing an Investment Promotion Agency (IPA), initially as part of the National Privatization Agency, but later to be independent. The IPA will address issues such as: (a) general image building of Macedonia as a good investment location; (b) servicing the needs of foreign investors; and (c) providing feedback to other concerned GOM agencies. It remains to be seen what real effect the IPA will have on improving access for foreign investors in Macedonia.

5. Agriculture and Agribusiness

In 1994, agriculture accounted for 20.6 percent of the GDP and was the only sector to show an increase (8.5%). The sector's contribution to GDP possibly understates its importance to the economy in that 45% of the population live in rural areas, and their welfare and income are closely linked to, or involved in, agriculture (World Bank, 1995). In contrast to other sectors, agriculture production has always been predominately a private sector activity, and is now largely in the hands of 177,000 farm families who own 70 percent of the arable land. Production agriculture accounts for around 38 percent of current employment. When agribusiness is included, this increases to 43 percent. During the transition period beginning in 1990, overall agricultural GDP has declined 12 percent in real terms, compared to 52 percent in the industrial sector. Within agriculture, it is the private sector that has limited the production decline to 12 percent through holding its own production decline to 6%, compared to a decline of 42 percent in the public sector. (Kansas State University, 1996).

USAID continues an involvement in developing the agriculture sector. The Macedonian Agricultural Marketing Activity (MAMA), a new, three-year "field to fork" agriculture program funded by USAID, will start in 1998. Other programs in the agriculture sector include the Land O'Lakes livestock and marketing project, WOCCU's rural credit program, and ACDI-VOCA, providing technical assistance to the private sector including agribusiness, natural resource management (primarily involving environmental issues), and farmer associations. The World Bank program in Macedonia has identified the development of farmer cooperatives as a priority with the privatization of the extension service for delivering technical assistance to agriculture. ACDI-VOCA's efforts with agricultural associations and cooperatives have been principally with the Sheep Breeders Association (650 members), and Farmer Associations (150 members). Ongoing discussions with government officials on the issues of feed and medical supplies have resulted in a promise for feed import and trade tax relief quotas required by the Association. Non-member farmers will not benefit from the trade tax relief.

Under a modified workplan, ACDI-VOCA will also be support USAID strategy with in the livestock, grains, and feeds subsectors, with a minor element in fruits and vegetables. ACDI-VOCA is working with two separate funds for rural enterprise development: (i) an IFAD agreement with the GOM for an \$8 million loan program; (ii) the Open Society Institute (OSI) to provide microenterprise lending, capitalized at \$500,000 to \$1 million to agriculture and other areas.

Other Donor Involvement (covered in above sections)

Recommendations for USAID Assistance Strategy:

1. Policies Affecting the Growth of SMEs:

Place more explicit emphasis on analysis and solutions for policy-related impediments to

SME growth. EU/Phare has recently launched an activity to do this. USAID-funded providers including the MBRC and other micro/small business financing programs should (a) feed data on key impediments facing SMEs to the EU/Phare project and (b) find effective ways to convey to their SME business clients how they can apply the new commercial laws (e.g., companies, accounting, collateral, bankruptcy, etc.), to their best advantage.

2. Access to Financing:

Encourage MBRC to leverage its resources via access to finance and business services available from SEAF, EU/Phare, etc. Microenterprise activities should also be expanded to take more advantage of available microcredit. Continue support for WOCCU's project to establish a Savings House to provide much needed rural credit.

3. Access to Business Services:

Continue funding MBRC through FY 2000 but plan for a phase out when USAID funding ends. Existing services should continue to be supplied free of charge by the MBRC. However, explicit attention needs to be given as to how, over time, independent business consulting services can be established, because it appears unlikely that MBRC in its present form will be sustainable after USAID funding ends.

4. Trade and Investment Opportunities:

Continue to implement activities that will increase trade through reforming business laws and customs regulations. Coordinate with the British Know-How Fund activity for ISO 9000 product standardization training, in preparation for WTO accession. In agricultural trade programs, aim at developing more value-added to production. Efforts should also be coordinated with the U.S. Embassy/Foreign and Commercial Service and the new GOM Investment Promotion Agency to identify impediments to foreign investment and increase levels of transparency in investment laws.

5. Agriculture and Agribusiness:

Expand Farmer-to-Farmer Programs, and expand ACDI/VOCA's efforts to widen scope for establishing new, agricultural associations, other than predominant sheep breeders and farmers associations.

ANNEX A: LIST OF CONTACTS/INTERVIEWS

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Annex B: World Trade Association**Tab A: The WTO Accession Process**

The procedural steps to be taken in acceding to the WTO may be grouped into the following five categories: (1) initial notification, (2) organization and convening of a Working Party Group, (3) foreign trade regime examination and review, (4) market access negotiations, and (5) negotiation of a Protocol of Accession.

I. Initial Notification and Application: Country governments as well as customs entities, like Hong Kong and the European Union, may accede to the WTO. Typically, the applicant government would apply for observer status, and at some later time formally apply. Following some statement of intention to apply, the applicant government will submit a "Memorandum of Foreign Trade Regime", which outlines its trade laws and practices according to the format specified by the WTO Secretariat.

II. Organization and Convening of a Working Party Group: Following submission of a Memorandum of Foreign Trade Regime (which must be submitted in either English, French, or Spanish - the three official languages used by the WTO), the WTO Secretariat prepares translations, if necessary. Simultaneously, a Working Party Group will be organized, comprising representatives of WTO members with an expressed interest in the particular applicant government's accession. Each Working Party Group appoints a chairman, who serves as a communications conduit regarding accession procedures (like the convening of Working Party Meetings) and as a shepherd of sorts to guide the accession process.

III. Foreign Trade Regime Examination and Discussion: This is done through the applicant government's thorough preparation of documentation and through answering technical questions posed by WTO member countries. Documentation includes the following:

- Memorandum of Foreign Trade Regime
- Documentation prescribed by various WTO Secretariat memoranda, including:
 - ACC/1 - Questionnaire on technical product standards and certification requirements;
 - ACC/4 - Questionnaire on Agriculture, including Aggregate Measures of Support, subsidies; and
 - ACC/5 - Questionnaire on Services.
- Answers to possibly hundreds of questions (i.e., questions which have been posed by WTO signatories and forwarded by the WTO Secretariat to the applicant). Macedonia's answers would be sent to the WTO Secretariat, and would form part of the agenda of the next Working Party Meeting. This process may be repeated a number of times before progressing to next steps.

- Preparation of a Tariff Schedule in WTO-prescribed format.

IV. Market Access Negotiations: Negotiations take place on a bilateral basis outside the formal workings of the Working Party. It should be expected that negotiations will take place with the applicant's major trading partners. At this point the applicant would prepare the following items to complete this phase of the accession:

- Offer on Tariff Concessions (to be completed once bilateral negotiations with major trading partners are carried out);
- Offer on Services;
- Report of the Working Party on the applicant's accession, which outlines the various commitments to be made by the applicant's government concerning WTO obligations. (To commence once tariff concessions are negotiated.)

V. Protocol of Accession: This is a WTO document which outlines the conditions under which the applicant's accession is to be accomplished; it will outline any special conditions to be applied during any phase-in period following formal accession by the applicant. (To be negotiated and agreed upon once all previous phases are completed.)

Tab B: The WTO Harmonization Process

Harmonization of Laws, Regulations, and Procedures: Simultaneous with the process outlined above is the applicant government's undertaking to harmonize its foreign trade regime with WTO commitments. This means that the applicant's laws, regulations, and procedures will need to be harmonized before accession.

Subject areas covered by MTAs include the following:

- Agriculture,
- Product Standards (covered by the Agreement on Technical Barriers to Trade);
- Intellectual Property Rights (covered by the Agreement on Trade Related Aspects of Intellectual Property Rights, or TRIPs);
- Customs regime (covered by numerous agreements);
- Trade Protection Mechanisms (covered by three specific agreements governing Antidumping, Countervailing Duties, and Safeguards mechanisms);
- State Trading Enterprises;
- Sanitary & Phytosanitary Measures;
- Textiles; and
- Trade Related Investment Measures (TRIMs).

Subject areas covered by PTAs include the following:

- Agreement on Trade in Civil Aircraft;
- Agreement on Government Procurement;
- International Dairy Agreement; and
- International Bovine Meat Agreement.

Tab C: Status of Key Macedonian WTO-Related Topics

Agricultural Subsidies: Subsidies do exist, but republican budget exigencies are forcing reductions in their level. Some tariffication of non-tariff barriers has occurred. Problem: MinAG recently instituted regional licensing requirements on tobacco purchases-effectively restricts trade and possibly incompatible with WTO requirements.

Trade Licenses: Not required, except for certain identified items. Private enterprises are allowed to engage in international trade so long as it is provided for in the registered charter (articles of incorporation).

Export Subsidies and Non-Tariff Barriers (NTBs): Quotas and ceilings are imposed on some exports and imports. Subsidies are provided to promote certain exports, particularly agricultural.

Anti-Dumping/Countervailing Duties/Safeguards: The GOM inherited the former Yugoslavia's legal regime for these areas. Unclear whether there is any corresponding apparatus within the government to implement these carryover laws.

Sanitary and Phytosanitary Standards: Disease and pestilence incidence is higher than in other advanced economies. Unclear which agencies have responsibility for this field.

Intellectual Property Rights (TRIPs): Responsibility for IPR rests with the Office of Industrial Property Protection. The GOM became a member of the World Intellectual Property Organization (headquarters in Geneva) in 1993. In the same year, it enacted the Law on Industrial Property (42/93), which likely covers patents and industrial designs. Copyrights and trademarks are apparently enforceable under grandfathered Yugoslav laws and treaties, like the Bern Convention. Bootlegged CDs and computer software are openly available. Enforcement of copyrights is becoming a significant bilateral issue.

State Trading Enterprises: Agro-kombinats may be considered STEs. Needs further exploration.

Product Standards: Unclear whether there is any body responsible for this; whether an Enquiry Point would have a logical home. Economic Chamber of Macedonia has likely role, as it is responsible implementing entity for ISO 9000. There is a Bureau of Standardization, which is responsible for bring Macedonian Product Standards in line with EU directives.

Trade in Services: Unclear whether any restrictions on insurance, banking, transport, etc. Services are not subject to duties, taxes or fees.

Trade Related Investment Measures (TRIMs): Unclear.

Macedonia: Macroeconomic Overview

April 1998

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VI. STATISTICAL ANNEX

I. EXECUTIVE SUMMARY:

1. THE ECONOMICS OF INDEPENDENCE Macedonia¹ has proven its economic resilience. It has maintained political stability and an acceptable standard of living in the face of enormous handicaps. Independence, declared in 1991, created severe economic dislocations. With a population of only some 2 million, Macedonia had constituted 10% of the citizenry of Yugoslavia and 5.4% of then Yugoslavia's GNP. Its major economic input and output linkages ran through Serbia, which had been the source of its industrial inputs and the market for its output. (Former Yugoslavia² remains Macedonia's most important trading partner.) At independence, the Yugoslav central bank froze nearly \$1 billion in Macedonian citizen foreign's exchange deposits. It also retained Macedonia's share of Central Bank foreign exchange reserves. Thus newly independent Macedonia started with negligible initial foreign exchange reserves. Not only was the new nation landlocked, but it faced difficult neighbors on all frontiers. For much of its first 5 years of existence, principal trade access routes were embargoed or impeded (by the Serbs to the North, and the Greeks to the South). Internally, the potential for ethnic conflict was and remains a major element in the political equation. At least 23% of the population is of Albanian extraction and identifies with ethnic brethren in Albania and Kosovo. Related to this is the possibility of conflict spill-over from other Former Yugoslav Republics (FYRs). Lastly, Macedonia has had to transition from "Yugoslav socialism" to a market-based economy.

2. GDP DECLINE. Following independence, national output fell precipitously, reflecting the economic dislocations and uncertainty. The national income accounts are highly suspect; but, it is thought that GDP dropped more than 35% from pre-independence levels. Much of the decline occurred in the 1990 -1993 period with lessening declines in '94, and '95. GDP is thought to have stabilized in 1996 with 0.7% growth recorded. In 1997 the growth rate rose modestly to 1.5%. Currently GNP is thought to be in the neighborhood of \$1860 per capita³ and growing well above last years rate.

3. STABILIZATION PROGRAM. The central pillar of Macedonia's current IMF-assisted stabilization program is the *de facto* peg of the Macedonian denar to the German mark.

¹ As a result of a bitter dispute with Greece over use of the name "Macedonia", the country is referred to by international organizations as "The Former Yugoslav Republic of Macedonia". Bureaucratically, the acronym FYROM is sometimes used. The constitutional name is the Republic of Macedonia.

²The term "former Yugoslavia" or Former Republic of Yugoslavia (FR Yugoslavia) is used to refer to Serbia and Montenegro which remain in the Yugoslav Federation.

³IBRD documents for 1996 are showing an \$840 per capita for 1995, but this was based on national account estimates which largely excluded the "grey market". The \$1860 figure represents current thinking, based on draft revisions in the National Accounts to include the grey market, converted at the current exchange rate. (Quoted in the just released National Development Strategy Report of the Academy of Arts and Sciences, under the Auspices of the Ministry of Development.)

Current IMF monetary and fiscal performance criteria are directed towards this end. In the immediate aftermath of independence, a substantial budget deficit was incurred with inflation rising to almost 2000% in 1992. A 1994 IMF supported stabilization program and its associated austerity measures slowed the inflation to the high single digit level by 1995. Even more severe monetary and fiscal measures under a second such program in 1996 brought inflation down further and has held it at lower single digit levels. These same austerity measures curbed the fiscal deficit, reducing it from an average of 12% of GDP in 1992-3 to 3% by 1994, and to below 1% currently. The rise in unemployment is believed to have roughly paralleled, with a lag, the fall in national income; reaching 35+%. Recorded unemployment continues to rise even as the overall economic situation improves⁴. Underemployment is also wide-spread, particularly among the highly educated. Further, a chronic trade deficit persists at the \$400 -500 million level. Thus far it has been filled by IMF/IBRD balance of payments support, remittances, trade credits, and unclassified foreign exchange conversions, etc.

4. POLICY PERFORMANCE has been mixed. Major policy directions have been set, but the supporting and implementing policies are, for many areas, not in place. Monetary and fiscal policies have been vigorously and successfully applied to break inflation. The Ministry of Development estimates that some 80% of prices are free -- the exceptions being items like petroleum products, electricity, and bread. An additional 6% of prices are under a reporting requirement, with an implicit threat of intervention. Wages are free. There are no restriction on sales, purchases or holding of foreign exchange. Import/export restrictions are few and the average duty level has been reduced to below 15%, but with some quotas in effect. Agriculture remains a problem area with input subsidies and price supports remaining, though their budgetary impact has been substantially reduced. Tax policy remains problematic with introduction of a VAT now delayed until 1999. Tax compliance suffers from lax enforcement procedures and the bifurcation of collection and assessment/enforcement responsibilities. Much of the emerging private sector, particularly the grey market still manages to elude the tax roles.

Many hard budget policy issues remain to be addressed. A balanced budget is targeted, but largely implemented by making government capital spending the residual balancing element -- thus the deterioration in schools, hospitals and other social infrastructure⁵. Social welfare and pension payments account for roughly half the government budget, yet are neither generous nor well targeted. With much of the private sector off the books, many of its

⁴ This is to be expected under the continuing downsizing related to past and on-going privatization. Indeed, as one knowledgeable economist stated, if the unemployment numbers don't rise in the short run, then the right policies are not being applied -- things here have to get worse in order to get better. This has implications for measuring short term program success.

⁵Economic Infrastructure -- roads, power, rail transport, factories -- is now deteriorating but appears adequate for economic expansion. Social infrastructure -- schools, hospitals, etc -- is thought to be badly deteriorating and is impacting the quality of life.

employees may be drawing unemployment benefits. Privatization policies have successfully severed 1041 enterprises from the public sector and 237 more privatizations are underway. These enterprises employ 174,000 and 89,000 employees respectively. Yet privatization has occurred without change in management nor corporate governance. Stockholder rights except for holders of 51% are nonexistent, and corporate boards play no real role. Land ownership laws are unclear and without provision for the creation registration, or enforcement of liens. The banking system is incapable of mobilizing savings and is burdened with non-performing loans. Moreover individual banks are sometimes owned by the industrial enterprises to which they make loans. More positively, debt arrearage, both internal and external have now been cleared and rescheduling agreements with the Paris and London creditor clubs are in effect.

5. LIVING STANDARDS in Macedonia, particularly in Skopje⁶, appear much better than the data would suggest. Few homeless people are in evidence, no obvious malnutrition is evident, the beggars are limited in number, and the slums are not extensive. Statistical quality of life indicators are reasonable good. The stores are well stocked with imported merchandise. Yet undeniably, wages are abysmally low, the competition for jobs high, and job turnover rates low. Likely explanatory factors are: a high (and under recorded) level of remittances from abroad, dissavings both individual (out of foreign exchange mattress money) and collective (e.g., deterioration of the health and education infrastructure) and a strong extended family support tradition.

6. TWO UNIFYING THEMES underlie the political economy of Macedonia. These drive an uneasy social consensus on key economic and political question.

a. The Bosnia example. The internal political balance is precarious, particularly as relates to the Albanian ethnic minority (24% of the population⁷). Inter-ethnic relations are strained, yet the object lesson to the North has a restraining influence. (No one, however, thinks such restraint could survive a major repressed uprising in the Albanian populated Serb border province of Kosovo.)

b. Accession to the European Union. All parties see accession to the European union as the key to long term economic prosperity and political security. This over-arching goal drives social and economic policy decisions. Both practical compatibility as well as formal accession standards dictate very specific policy prescriptions and objectives. The need to meet EU standards mutes many potentially divisive policy issues. These include the fundamental nature of the import and exchange regimes, and wide areas of the legal-regulatory-judicial framework. For example required corporate disclosure and accounting standards become

⁶Some say conditions outside Skopje are worse, however, casual traveler's have not detected this. Moreover, it is more usual for the unemployed to migrate to the cities. Further, no one suggests that police tactics are used to bar migration to Skopje nor to clear the homeless.

⁷ Some, of Albanian extraction, would dispute this percentage claiming that the Albanian population is severely under-registered.

largely parametric and not open to political argument, given that the agreed over-arching goal requires that they meet EU accession standards.⁸

7. THE ECONOMIC OUTLOOK is unclear. A Balkan state of 2 million persons is simply not viable without extensive trade integration or other means of accessing, with minimal trade barriers, a much larger market. Although ultimate accession to the EU is far from certain and clearly at least 10 years off, the process has begun with Macedonia signing a cooperation agreement with the EU in April of 1997. Of more immediacy, interim free trade arrangements have been worked out with the Slovenia, Croatia, and FR Yugoslavia (Serbia-Montenegro.) Unfortunately these agreements appear, initially, to be honored by all sides on an "as convenient" basis. Free trade agreements are also under negotiations with Albania and Bulgaria but have been slowed by the chaos in Albania and the language dispute with Bulgaria⁹ With its educated population, varied agricultural base, reasonably good mineral and hydroelectric resources, strong tourist attractions and prime location, Macedonia clearly has the potential to be viable at a prosperous level. More negatively, investment -- foreign and domestic is lacking. Until investment levels rise sharply the economy can progress, at best, slowly. Creation of an investment-friendly legal-judicial-regulatory context is a necessary but not sufficient condition to more rapid progress. External factors, *e.g.*, defusing Kosovo and its potential spill-over may well be the sufficient condition. If the political will is there, and most think it is, continued reform -- absent major external shocks and with continued donor support -- will engender continued progress, but the pace may be slow.

II. BACKGROUND CONTEXT

1. RESOURCE BASE

A. PHYSICAL AND ECONOMIC GEOGRAPHY. Macedonia is roughly the size of Maryland - 25,700 square kilometers. Heavily mountainous, it possesses a varied climate, influenced by altitude, with much of the country classified as semi-arid. Macedonia also possesses substantial exploitable metallic and non-metallic mineral deposits -- zinc, lead, lignite; marble, gypsum, quartz. It has 950,000 hectares of forest land (37% of its land area.) By land area, about half is devoted to Agriculture, evenly divided between crops and pasture. It contains substantial hydroelectric and geothermal potential, but moderately limited water resources for irrigation. It is in a moderately active seismic area, with the last major quake, in 1963, doing extensive damage to Skopje. There are neither petroleum nor gas resources.

⁸ My understanding is that the EU has established a formal accession ladder with technical criteria; i.e first rung is a cooperation agreement, then an association agreement, and several other rungs leading up to (but not guaranteeing) accession. Accession progress may depend more on EU internal politics than it does on the technical compatibility and performance standards of applicants. Thus Albania is on a higher rung than Macedonia even though it may not technically merit it.

⁹ Bulgaria does not recognize Macedonian as a distinct language, believing it to be a dialect of Bulgarian. Bulgaria also has yet to recognize Macedonia's sovereignty.

b. Demographics: The 1996 population is estimated at 1.983 million. Ethnically, 67% are of slavic origin, 23% Albanian, and the rest from a broad spectrum of other European ethnic and national groups. Some 28% of the population live in the capital, Skopje; 55% in the largest 5 cities (including Skopje); and another 25% in towns of 50K to 100K. (There are thought to be roughly 600,000 migrants from Macedonia living in the US, Canada, Western Europe, and Australia. One estimate has 60,000 Macedonians (largely of Albanian extraction) working abroad -- many in Germany -- on a temporary basis. The human capital base is reasonably good, and on the whole Macedonians are relatively well educated, though the Albanian community is less so. At the time of independence, primary schooling was nearly universal, the secondary school attendance enrollment ratio was 38%, and the tertiary ratio, 17%. Health statistics suggest a reasonably healthy population

2. RECENT ECONOMIC HISTORY. Macedonia became independent under inauspicious circumstances. Following Slovenia, Croatia, and Bosnia, the Yugoslav Republic of Macedonia declared its independence in 1991. The Yugoslav Federation (Serbia & Montenegro remaining) acquiesced, but its central bank froze DM1.6 billion¹⁰ (almost \$1 billion) in Macedonian citizen foreign exchange deposits; and its army withdrew from Macedonia taking all the military hardware. Thus Macedonia entered into independence with neither substantial foreign exchange reserves nor military capability. Its small size was also disadvantageous. The economic viability of a nation of only 2 million people, must of necessity, depend on trade. Macedonia, is land-locked and had, at least initially, serious problems with all its neighbors. Moreover, its only developed transport corridors run north through Serbia, or south through Greece (to the port of Thessaloniki.) At independence and for much of its brief history, the international sanctions against Serbia restricted its access to and through Serbia. Macedonia tried to honor these sanctions and FR Yugoslavia reciprocated with an embargo of its own. Concurrently, Greece, objecting to the new nation's use of the name "Macedonia"¹¹ embargoed or impeded Macedonian trade to and through Greece. Macedonia also borders on Bulgaria and Albania. However, lack of transport infrastructure restricts trans-shipment through Bulgaria, and banditry restricted use of Albanian roads.

Equally difficult, Macedonia's production input and output linkages were to the Serbian economy. Under Yugoslav central planning, Macedonia was a small cog (roughly 6% of GNP) in the Yugoslav economy, and as such had access to the Federation's 22 million person market. As elsewhere in Yugoslavia, industrial production was organized into large, inefficient, multilayered conglomerates, integrated across the Yugoslav Federation as a whole and ill suited to international trade. With independence, Macedonia's internal market fell

¹⁰Macedonia also believes that it is owed a proportionate share of Yugoslav Central Bank foreign exchange reserves at the time of its exit. The usual figure cited is 5.4% -- the relative size of Macedonia within the Federation's Gross social product account. (Also now the country's IMF quota.)

¹¹ Greece believes that the name itself implies a territorial claim on the Greek province of Macedonia (whose slavic populace has been Hellenized) and is an expropriation of a name they have title to.

tenfold to 2 million, and its much of its upstream and downstream product, linked to that of FR Yugoslavia, fell victim to international sanctions against Serbia. The result was a massive contraction of national product -- by 35% or more. Macedonia also lost subsidies from the Federation, equivalent to some 5% of GNP, its entitlement as the Federation's poorest area. The only positive element was a rise of \$150 to \$200 million in international trade service earnings -- presumably reflecting services to the embargoed Serbian economy.

3. ETHNIC TENSION between the Slavic majority and the ethnic Albanian minority is also a major cause of concern, with substantial but unpredictable economic effects likely. The Albanians tend to be concentrated in specific areas and to identify with their brethren in Albania and Kosovo. There is tension over the flying of the Albanian flag, over equal access to tertiary education, over the relative level of government transfers to Albanian-dominated villages, and over infrastructure development in these areas. There is also, on the part of the Albanian community, a perception of social, educational, and cultural discrimination. Although the principal ethnic Albanian political party is a partner in the governing coalition, radical factions within the ethnic Albanian population are reported to be growing rapidly at the expense of more moderate factions. Surprisingly, because they were less advantaged, Albanians may be faring better under the economic transition -- see footnote 16. Moreover, the bulk of remittances from abroad are thought to go to the Albanian community¹². For their part, many Slavic Macedonians see reverse discrimination; in part as a result of the Albanian position in the governing coalition. Most importantly, the ethnic Albanian population is in reality, an extension of the Kosovo Albanian ethnic population¹³. Tensions in the Serb province of Kosovo with its 2 million ethnic Albanians, cannot help but impact on neighboring Macedonia. A major influx of refugees from Kosovo would upset the delicate political/ethnic balance (and might even, paradoxically, push the Macedonians closer to the Serbs.)

III. KEY MACROECONOMIC INDICATORS Except for employment, there has been consistent improvement in the basic economic indicators in each of the last three years. The precipitous fall in gross output has been arrested, and modest (very modest) growth restored. Inflation continues to be held in check with fiscal¹⁴ and monetary austerity, coupled with a substantial net inflow of goods from the external sector. The chronic trade deficit, equivalent

¹² According to popular wisdom in Skopje, when Macedonians leave to work abroad, they tend to leave permanently. Whereas Albanians work abroad in proportionately much higher numbers, usually intend to return, and have larger, more cohesive families. Accordingly, they are more likely to remit funds (often to build a house for their return.)

¹³ Under the Yugoslav Federation there was free movement between the two areas and the population are heavily interrelated.

¹⁴ In the last year there has been some lessening of financial stringency. The most prominent example is the new employment law which provides a payroll tax and social security contribution holiday for companies increasing employment. (Supporters see this as the filling of a necessary social equity need made possible by the success of the stabilization effort. Skeptics see electioneering at work.)

to roughly to roughly 10% of GDP, has proven manageable (with balance of payments support from the IMF and the World Bank.). The below table provides current estimates¹⁵ of the rate of change in key macro variables during the last three years. For the first two months of 1998, inflation has remained at the single digit level (annualized) and production has risen notably with estimated GDP and industrial production both showing a 14% annualized rates of growth. The trade gap, so far, in 1998 is slightly larger, but this is accountable by the increase in intermediate goods imports for export products. As such, it should be self-liquidating.

IV. ECONOMIC STRUCTURE¹⁶:

1. THE TRANSITION to a market based economy is perhaps three-quarters done, with the utilities, telecommunications, and agroindustry conglomerates yet to be privatized. Yugoslav socialism tended to be less doctrinaire than that of its eastern cousins. Agriculture, at the farm level, had never been collectivized; and individual enterprises had greater management autonomy than elsewhere in Eastern Europe. Much of the expanding private sector operates in what is know as the "grey market." "Grey market" enterprises are by definition not registered and usually do not enter the statistical base (nor the tax rolls). The grey market constitutes a sizable percentage of the private sector, but until recently there were no statistics on its magnitude. In 1997 government undertook a survey (outside the usual statistics gathering process) to assess the full magnitude of the private sector. It suggests that at the end of 1997, "over 70% of the total revenues of the Macedonian economy are realized in the private sector. Approximately 57% of the total number of employees work in private enterprises and they generate a profit close to 78% of the total profits in the Macedonian economy."

In keeping with Yugoslavia's worker management concept, workers and management were given the right to decide how individual privatizations were to be accomplished. Generous terms were offered by the government (including allowing use of the frozen deposits to

¹⁵Caveat emptor!

¹⁶Data, or rather, reliable data is a problem in Macedonia. There are a number of underlying factors. All numbers should be suspect! First, given the frozen deposits, and recent bank scandals no one entrusts the banks with deposits. The 2000% inflation of only several years back means that no one trusts the currency as a store of value. As result, people save in the form of foreign exchange stored under mattresses, in safe deposit boxes, or in accounts abroad. There is no reliable direct track on foreign exchange flows into and out of the economy. Second, import and export figures are also suspect, if for no other reason than trade partners in other former Yugoslav republics want the nominal figures understated, for their own tax and visibility reasons. A revision of 10% to 15% in the base data is not uncommon. Third, much of the private sector is in the "gray market" (*i.e.*, unregistered for tax and other reasons) and intent on staying there. Third, the institutions recording and analyzing the statistics are all relatively new, having been provincial branch offices of the Yugoslav bureaucracy only six years ago. Fourth, the hyperinflation of the early 1990 made indexation and real trend analysis challenging to say the least. Thus you can have the last IBRD report (December 1996) saying GNP per capita is \$840 when the next is likely to say twice that amount.

purchase equity shares¹⁷). Very little actual cash has been tendered. The results have generally been management buy-outs. While this got the firms off the public rolls, it did not usually result in a change in management. (It also tended to discourage foreign investment.) Actual privatization of socially owned enterprises numbered 1,041 through June of 1997, with 174,000 employees. Another 237 privatization effecting 89,000 employees are in process and expected to be finalized within the next few months.¹⁸

Table 1: Key Macroeconomic Indicators

Key Macroeconomic Variables	1995	1996	1997
GDP Growth Rate (%)	-1.2	+0.7	+1.5
Industry & Mining	-7.8	+4.5	+3.5
Agriculture & Fishery	+4.1	-3.2	+3.0
Inflation Rate (%)			
Retail Prices (Dec>Dec)	9.2	0.2	4.5
Cost of Living	15.7	3.0	4.4
(current/previous year)			
Deflator	6.8	1.9	4.4
Foreign Trade (% change)			
Export of Goods	7.3	-6.7	1.8
Import of Goods	9.9	-6.9	2.3
Unemployment Rate (%)	27.1	29.5	31.2
Public Finance (as % of GDP)			
Total Public Revenues	41.4	40.6	38.5
Central Gov't. Budget	26.2	25.5	23.2
Local Budgets	0.4	0.6	0.5
Off-budget funds	0.5	0.5	0.6
Social Funds	14.3	14.0	14.2

source: Ministry of Development Report of February, 1998

a. Privatization. Efforts to restructure the economy began in 1988 with the Yugoslav "Law on the Transformation of Social Capital" (Read privatization.) By 1989, some 250 Macedonian firms had started the transformation process. At independence, in 1991, some 300 Macedonian "socially owned" firms were undergoing privatization. The newly independent government continued and expanded the on-going process. A basic 1993

¹⁷ The frozen deposits trade in an informal secondary market, currently at a 45 to 50% discount.

¹⁸ Source: Macedonian Privatization Agency

Macedonian privatization law strengthened and expanded the concept. This law specified three phases to Privatization. (1) the commercial sector; (2) the agricultural sector (begun in 1996); and (3) public utilities such as telecommunications. A considerable number of new enterprises, mostly private, also emerged. By the end of 1996, over 90,000 enterprises were formed in the Republic of Macedonia; more than 86,000 of them privately owned.¹⁹

Privatization Results through December 31, 1996

Activity	Number of Enterprises	Number of Employees
Industry	333	89,144
Construction	100	26,049
Trade	293	16,376
Transport	34	3,889
Catering & Tourism	35	2,350
Handicraft	42	1,835
Financial Services	77	4,896
Total	914	144,539

source: Macedonia Privatization Agency
(Quoted from the 1997 National Development Strategy)

Further, a major restructuring effort was undertaken for the largest 25 loss-making companies. These 25 accounted for roughly 13% of GDP and 80% of enterprise losses. The program included imposition of hard budget constraints, break-up of conglomerates, closure of nonviable units, laying off redundant workers, and managerial reorganization. No non-minimal new investments were made. The 25 enterprises are now 150 enterprises, 100 of which have already been privatized. Lastly, 15,000 workers have been laid off. The restructuring program was underwritten by the World Bank.²⁰

2. INDUSTRY accounts for roughly 40% of gross social product and nearly 30% of employment. Under Yugoslav "market socialism" the factories were socially owned but managed by the workers. Major industrial activities include petroleum product refining, chemicals, mining, textiles, and food processing. Except for public utilities and the largest

¹⁹ National Development Strategy for Macedonia" December 1997

²⁰source: Macedonian Privatization Agency and National Development Strategy Document.

agroindustry conglomerates, most public sector enterprises have now been privatized -- largely through management buy-outs, on very generous terms. Since new investment has been essentially absent for the last 6 years, plant and equipment are neither modern nor well maintained. Utilization of capacity is generally thought to be below 50% across a wide range of industries. Plant and equipment have suffered from lack of financing for maintenance and investment, with predictable results for the quality of the capital stock. Privatization involved down-sizing and left many employees without jobs. Some of the industrial enterprises own banks, and it is unclear how much advantage they are taking of this conflict of interest. In the past, inappropriate bank credit had been a serious problem. Even so, there no good source of long term finance -- neither equity nor loans -- for the necessary modernization. Lastly, the prevailing management buy-out mode of privatization is not likely to have changed the style, or mentality of management. (Indeed, some would argue that it has legitimized and tightened the hold of the old communist elite on the means of production.)

3. AGRICULTURE and fishing accounts for some 15% of gross national product and 18% of employment. Farms were never collectivized in Yugoslavia, and have been arguably the segment of the economy least effected by the sustained economic turmoil of the last 6 years. Farmers in Macedonia tend to be of Albanian ethnic extraction.²¹ The large agribusiness combines have yet to be privatized. Cultivable soil amounts to some 670,000 hectares, or 27% of the land area. About 10% of arable land is devoted to orchards and vineyards. Macedonia is thought to have a comparative advantage in the production of early fruits and vegetables. It also produces substantial quantities of tobacco -- one of its major exports -- as well as wine, grains, and industrial crops. Pasture land is extensive and substantial quantities of meats are produced. Lastly, there is thought to be good potential for the expansion of food processing industries.

4. SERVICES -- trade, financial services, food, catering, etc -- now account for more than 50% of GNP. Because much of this is largely comprised of the "grey market" of unregistered private enterprises, the available data is misleading. However, it is believed that from 1990 to 1995, the share of GDP accounted for by the service sector rose from 43% to 51%.²² The rates of growth for services appear higher than those for the economy as a whole and modernization, at least at the consumer level, is proceeding -- witness the opening of two internet cafes recently. However, the lack of adequate banking and business services is still seen as an economic handicap. The degree of labor absorption by the sector also

²¹ Interestingly, an argument can be made that the Albanian ethnic minority being largely small farmers and small merchants, and having the greatest proportion of remittances from abroad have been less effected by the transition turmoil than the more elite of slavic community which bore the brunt of down-sizing and industrial decline. This however appears to be contradicted by recent income - expenditure surveys that found little real difference in trends affecting both communities.

²² National Development Strategy p. 226

seems to be below that of western European countries with services accounting for less than 50% of employment.

5. TRANSPORTATION, COMMUNICATIONS, AND UTILITIES. Basic infrastructure is in relatively good shape, but is suffering from the lack of investment. A modern if limited road and rail network links Skopje with the Greece and Serbia. The transport corridors, for political reasons, were developed only along a north south axis. Roads and rail connections, West and East, to/through Albania and Bulgaria are now deemed a priority within the government's proposed national development strategy. Telecommunications, at least in their extensive dimension, are nearly up to Western European standard i.e., the 42 phones per hundred inhabitants, compares favorably to other Eastern European states but below levels prevailing in Western Europe. Public utilities appear adequate to the populations immediate needs -- the city water is potable, and the electricity reliable. However, the less viable utilities infrastructure, *e.g.*, sewage treatment, is by all reports, a problem.

IV. POLICY AND PERFORMANCE

1. MONETARY POLICY. Since independence, two different monetary strategies have been sequentially pursued. From April 1992 to October 1995, the monetary authorities, with IMF support, directly targeted the monetary variables -- *i.e.*, money supply, interest rates etc. -- in the classic IMF manner. From November 1995 onward, the exchange rate was targeted -- *i.e.*, pegged to the German mark. Fiscal and monetary policy was directed at supporting this peg with central bank sales and purchases of foreign exchange as required. The mark was chosen as it is the principle Macedonian trading (and savings) currency. The strategy of an "exchange rate anchor" was chosen for two reasons: (1) Its transparency would lend needed credibility to the stabilization program²³; and (2) in a small economy imports are a very large percentage of the goods purchased. Accordingly, stabilizing import prices would exert a strong overall dampening effect on inflation. Supporting monetary and fiscal discipline to allow the peg to be maintained was necessarily quite stringent. However, as a result, inflation is now fully controlled. In order to maintain export competitiveness, a *de facto* 16% devaluation against the DM was undertaken in the second half of 1994 .

2. FISCAL POLICY. After a period of excesses, a balance budget was targeted, and has been nearly achieved in each of the last 3 years. The relatively modest deficits -- on the order of \$50 million -- have been funded with IMF and IBRD balance of payments support.

2.a. Taxes and Revenues. The tax burden in Macedonia is fairly high. Total taxes plus social security contributions run roughly 40% of GDP. Of this 27% is for the finance of state and municipal budgets and 15% for the financing of the three social security funds. The tax system has been refined successively since independence. In 1999 a VAT will be introduced

²³ As explained elsewhere, statistical data in Macedonia does not command much respect, neither by the authorities, the IMF, nor the populace; but everyone knows with certainty the exchange rate.

and major changes made to stream line the system. As it is, the system suffers badly from the lack of integration and coordination between the collection entity and the assessment/enforcement entity. Further, the tax office lacks the modern computer equipment necessary to enforce compliance. Moreover, vast sections of the grey market are off the roles; and though the subject of clumsy tax sweeps through neighborhoods, rarely caught. Penalties for evasion are draconian while tax inspector salaries are meager -- a sure recipe for corruption. Overall, tax compliance is believed to be low, with few prosecutions. More positively, since 1993 the government has introduced a unified personal income tax (replacing seven individual types of income tax); unified the profits tax under a single rate; radically changed the administration of the property tax; and reduced customs taxes to an average rate of 15%.

Table 2: Budget Deficit (in millions of Denars)

State Budget	1995	1996	1997
Revenues	49,400	43,315	41,520
Expenditure	51,200	46,364	44,454
Deficit	1,800	3,049	2934
deficit as a % of GDP	1.25%	2.06%	1.88%
Deficit as a % of Expenditures	3.6%	7.0%	7.0%
Deficit Financing	1,800	3,049	2934
External Borrowing (IMF & IBRD)	1,800	3,049	2934
Internal Borrowing	-0-	-0-	-0-

source: table adapted from similar table in the National Strategy.

2.b. Expenditures and Transfers. Budget austerity has been strictly enforced since 1994. All sectors have been squeezed. Transition costs have been large -- the government estimates that some 25% of the country's budgetary expenditures in the 1994 to 1997 period related to the transition to an independent free market economy. These include the costs of restructuring (worker compensation, assumption of debts, payment of a share of Yugoslavia debt obligations, and partial compensation to holders of frozen deposits. Budget figures and anecdotal evidence suggest that a disproportionate share of the adjustment burden has fallen on public sector capital expenditures and supplies, particularly severe in the health and

education. (Capital investment expenditures currently amount to only some 6.5% of public expenditures, whereas 25 to 30% would be more typical.

Structure of Fiscal Revenue Sources -- 1997 in per cent.

	% of GDP	% of Gov't. revenues
Personal Income Tax	5.9	13.8
Profits Tax	1.5	3.5
Taxes on Goods & Services	5.9	13.8
Excise taxes	7.2	16.9
customs taxes	4.5	10.5
Other tax and non tax revenues	2.0	4.7
Total Taxes	27.0	63.2
Social Security Contributions	15.7	36.8
Total Taxes and Social Security contributions	42.7	100.0

source:²⁴

Public Sector Spending

Functional Expenditure category	in %
Education	17.0%
Health	7.9%
Defense	9.1%
Expenditure Type	
Wages	32.4%
Goods & Services	14.6%
Subsidies & Transfers	31.1%

²⁴ Adapted from information in the "National Development Strategy for Macedonia" (dated December of 1997 but released March of 1998.) The strategy was sponsored by the Ministry of Development and written by a group of Academics under the auspices of the Macedonia Academy of Arts and Sciences.

Capital Expenditures and Capital transfers	6.5%
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3. TRADE AND THE BALANCE OF PAYMENTS

A. TRADE/EXCHANGE REGIME. All political elements in Macedonia fully recognize the imperative of free and open trade²⁵. A relatively liberal foreign exchange and trade regime has been adopted. Over 97% of exports and 98% of imports fall under the free import export regime. There is total convertibility of the currency at the prevailing exchange rate and no surrender requirements. The average customs duty rate has been lowered to 10.1%. Moreover, the government asserts that the entire customs system has been adapted to the international standards and principles of the World Trade Organization, and the tariff system of the European Union.²⁶

Raw materials and semi-finished goods constitute over half of exports. Major export items include tobacco, wine, metals and metal products, minerals and food products. Imports are mainly consumer goods and petroleum products with some raw materials and intermediate goods. Over 40% of exports and nearly 40% of imports are to/from the European Union. Over 30% of exports go to FR Yugoslavia and the countries that earlier constituted Yugoslavia.

A chronic trade deficit of some 300 to \$400 million persists. (The equivalent of about 25% per cent of exports.) Capital inflows are negligible and the trade deficit is funded with remittance earning, unclassifiable conversions of foreign exchange, trade credits, and World Bank and IMF balance of payments support. The quality of the data is poor, and it is generally believed that there are large unrecorded flows of both foreign exchange and goods. Given the likely elasticities, closing the trade gap could require substantial movement in the exchange rate, with major stabilization implications. For now, neither the government, nor the IFIs nor the donor community seems inclined towards this direction. Especially so since financing the trade deficit has not been a notable problem.

B. DEBT SERVICE. The republic has cleared all international arrearage. This was done with a Paris Club arrangement in July of 1995 which rescheduled \$340 million of interest and

²⁵ But as elsewhere, much of the private sector appears to be of the view that free trade is ideal for every other sector, but its particular sector requires protection or subsidies.

²⁶ source: National Development Strategy

principle; and a London Club arrangement agreed to in November of 1997 which rescheduled \$240 million of commercial debt.²⁷

C. THE BALANCE OF PAYMENTS.

Balance of Payments	1996	1997
<u>Current Account</u>	-288	-276
Goods	-317	-388
Exports	1147	1201
Imports	1464	1589
Net Services	-155	-145
Net for. income	-30	-34
Net Transfers	213	290
Official	52	7
Other	161	283
<u>Capital Account</u>	270	306
Net Capital	0	0
Net Financial	270	306
Direct Investment	11	16
Portfolio Inv.	0	2
Trade credits	59	268
net loans	42	75
currency & dep.	61	-29
other	69	8
Change in Reserves (- = increase)	8	-35
Errors and Omissions	19	-30

Source: Nation Bank of Macedonia

4. THE BANKING SYSTEM AND CAPITAL MARKETS.

a. Banks. Because of a history of depositor losses, there is little confidence in the banking system. The frozen deposits, the savings bank failures, and an aversion to taxes all

²⁷ see footnote #8

set the stage for a bank-adverse, cash oriented economy. Not even real interest rates on deposits in the 10 to 15% range have induced much interest by potential depositors. A deposit insurance fund has been created, but it needs to be strengthened and broadened -- even more, it needs time to establish credibility. Not receiving much in the way of deposits, banks are not in a position to mobilize savings. There is a serious deficiency here. Moreover there are serious liability problems in that sizable portions of bank loan portfolios are non-performing. In the view of most observers, there are too many banks, no tradition of corporate governance, and a weak regulatory apparatus. The refurbishing by the Privatization agency of the largest bank is but a step in the right direction. System-wide rehabilitation is beyond available resources -- one estimate of the cost of rehabilitating the entire banking system is \$2 billion.

b. The capital market and investment. The Macedonian capital market is rudimentary, and largely informal. A small stock exchange has been established with assistance from the British Know-How fund. It has played little if any part in the privatization, but does trade, on an unlisted basis, in the stocks of some privatized firms. The small stock exchange seems to be positioned to grow rapidly as the regulatory framework for investment is strengthened. Foreign investment, so far, seems to be scared-off by an inadequate legal-regulatory system as well as by the various uncertainties underlying the regional political situation. Collateralization is inhibited by the lack of a mechanism for centrally registering and enforcing liens. Regulatory framework deficiencies are both deep and extensive. Minority stockholders rights are largely fictional. Corporate bylaws often inhibit the transferability of shares. There is no culture of corporate governance. Boards of Directors have no real role in checking potential management excesses. Moreover, because of the way privatization has been structured, favoring management buy-outs, little foreign purchase of privatized assets has occurred -- denying the economy a potent avenue for acquiring foreign management and technological expertise, as well as new capital.

For its part, the government is actively working on the judicial regulatory framework. For example, a number of new laws are before parliament. These include an investment funds law. Further, a basic stock company law also is being legislated that will define stockholder rights, specify information release requirements, *etc.* The proposed National Strategy calls for anti-monopoly and protection of competition legislation. Even with such laws, the institutional supporting mechanism to enforce them will take time, a lot of time, to develop and mature.

V. OTHER DONOR ASSISTANCE: On the whole, the donor community has been generous with Macedonia -- reflecting interest in maintaining Macedonia political stability. According to the Donor Coordination Unit attached to the Prime Minister's Office, donors had committed to \$959,170 000 dollars in assistance since 1992. The grant total was \$434 million and the loan total, \$525 million. The major donors, ranked in order of contribution are; the World Bank (\$302 million), the EU's PHARE program (\$171 million), the European Development Bank (\$164 million), Germany (\$86 million) and USAID (\$78 million).

-- DCU figure). Energy and Infrastructure programs tended to dominate. (See appendix tables for the full DCU break-out of donor funding levels by donor and by program sector.

1. THE IMF has loaned or made available to Macedonia SDR 56.19 million (about \$80 million) under Standby Arrangements, an Enhanced Structural Adjustment Facility, and a Systemic Transformation Facility. In part this speaks well for the cooperation of the Macedonians, and the tenaciousness with which they applied monetary and fiscal discipline under an IMF-sanctioned stabilization effort. In addition the Fund has in place a ResRep It has also a very active technical assistance effort, with 32 Advisory Missions in the last 5 years. The Advisory missions have been particularly concerned with upgrading the statistics. The last IMF report, with bureaucratic understatement, notes that current Macedonian data "... is not adequate to support the publication of an IFS page."²⁸

2. THE WORLD BANK has in place a varied program directed at structural transformation and balance of payments support. From 1992 through 1997, the Bank added new commitments at an average rate of \$55 million per year and ended the period with a cumulative commitment of \$330 million. Based on a recorded \$860 per capita GNP level, Macedonia qualified for IDA terms. The loan titles and amounts, given below, delineate the shape and magnitude of the bank's program.

	(in millions)
Program Elements:	<u>\$300</u>
1994 Economic Recovery Loan (ERL)	\$80.0
1995 Transit Facilitation Project	\$24.0
1995 Financial and Enterprise Sector Adjustment Credit	\$85.0
1995 Social Reform and Technical Assistance Project	\$14.0 mil.
1996 Private Farmer Support Project	\$7.9
1996 Health Sector Transition Project	\$16.9
1997 Structural Adjustment Loan	\$60.0
1997 Education Rehabilitation Project	\$5.0
1997 Irrigation Rehabilitation and Restructuring Project	\$12.5
1997 Private Sector Development II Project	DM 45.0
Projects under preparation/design:	
Social Sector Adj. Credit	\$20.0
Water Supply and Sewage	\$29.6
Power System Improvement	\$35

VI. STATISTICAL ANNEX

²⁸ The monthly IFS or International Financial Statistics is the means by which the IMF publishes standardized member country data. This widely utilized publication includes comprehensive data on nearly all IMF member countries.

As explained in footnote # 14: the data is not reliable in Macedonia. The IMF, World Bank, and most expatriate economists believe that a major effort to upgrade the statistics is imperative, if we are to understand trends and developments. Given the hyperinflation of the early 1990s, the Macedonia citizen deposits still frozen in the FR Yugoslav Central Bank, and recent bank failures, the populace has confidence in neither the Macedonian currency nor the banking system. Thus, you have a bank-adverse society that saves in foreign exchange outside the banking system -- i.e., there is no reliable track on foreign exchange flows, though such flows are the basis of many economic transactions. For a variety of reasons, some tax related, some related to the needs of trade partners in former Yugoslav destination/origin countries, the foreign data is not reliable; *i.e.*, the recorded flow of real goods to/from the external sector is questionable. Compounding the data problem, there is a huge "grey market" of unregistered private enterprises. Only in the last year have credible efforts been made to estimate the size of the grey market through statistical sampling. Lastly, the statistical collection institutions are newly spun-off of the FRY central agency. Accordingly, all numbers should be viewed skeptically.

**Macedonia
NGO Sector Review**

**Prepared for:
OAR/Macedonia
United States Agency for International Development**

**Prepared by:
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April 2, 1998

EXECUTIVE SUMMARY

Between March 23 and April 3, 1998, a review of the NGO Sector in Macedonia was undertaken by a two person USAID team. Its purpose was to assess the status of the sector and provide the OAR/Macedonia with recommendations for developing its five year strategy.

The basic finding of this report is the NGO sector is still at an incipient level of development and is in need of the continuing support of USAID and other donors for several more years if it is to become effectively institutionalized in the Macedonian environment. Principally, support continues to be needed in several key areas:

1. The **Legal Environment** is improving, however, continued attention is needed to pass tax legislation favorable to the NGO sector, the training of lawyers in NGO-related legislation, and the training of NGOs to understand these new laws.
2. The **Organizational Capacity** of local grass-roots NGOs continues to be weak, with few having professional management or staff with needed skills. Exacerbating this situation, few indigenous intermediary NGOs exist to attend to these needs.
3. The **Financial Viability** of the NGO movement is still precarious because of a weak economy, low per capita income and high unemployment which constrain the development of governmental support and local philanthropy. Thus, donor funding dominates in this sector, primarily USAID and the Dutch.
4. Limited **Advocacy** is taking place but primarily by environmental NGOs. The others are primarily focused on local issues and have not as yet seen the value of combining forces with other NGOs with similar interests to press for change.
5. The **Public Image** of the NGO sector is obscure due primarily to the fractured nature of the media and ethnic and language differences, making diffusion of information more difficult; and the indifference shown the sector by government.

Notwithstanding the above assessment, the USAID grantees have done a credible job to date of training and animating the NGO sector, recognizing that many NGOs were created under the socialist system and much of its leadership suffers from the attitudes of that era. With few exceptions, no intermediary NGOs are playing this role effectively.

Based on the findings, it is recommended that the OAR/Macedonia:

1. Continue to actively support the NGO sector but only select those NGOs in the future that meet at least one of the following criteria:
 - . Are managed in a democratic, participatory manner that allows those working within to have a say in its operations;

- . Carry out programs that in some meaningful way promote inter-ethnic tolerance and accommodation;
- . Have the ability or potential to perform advocacy activities in support of NGO interests; and/or
- . Are able to become indigenous intermediary support organizations (ISOs), serving some of the needs of the sector.

2. Support the collection and dissemination of information on the NGO sector to both better understand its make-up and composition and to improve public awareness of the sector and its activities.

3. Promote donor coordination to reduce duplication of effort and leverage additional support for the sector; and encourage NGO networking to encourage partnering and development of common agendas.

4. Identify and strengthen potential ISOs to provide direct support to local grass roots NGOs, including advocacy with government on its behalf, the provision of training and technical assistance, and grants.

5. Continue to support training and technical assistance to strengthen the institutional capacity of the sector which is still weak and in need of both basic and tailored assistance.

6. Encourage synergies between the NGO and local government programs to foster better working relations between the NGO community and the government sector, leading to dialog, policy change and improved services to the public.

NGO SECTOR REVIEW: MACEDONIA

Purpose: The purpose of this review is to determine the status of the NGO sector in Macedonia. The review also encompasses the efforts of the various implementing entities working on NGO development in Macedonia which are supported financially by USAID. These include primarily the Institute for Sustainable Communities (ISC), the Institute for Not-for-Profit Law (ICNL), Freedom House (FH), and Delphi. In the process, needs requiring further assistance will be identified. Finally, based on these findings, recommendations about approaches to future assistance are made. It is hoped that the OAR/Macedonia will find these recommendations useful in developing its new country strategy.

Methodology: The NGO Sustainability Index, developed by ENI/DGSR, has been used to assess the NGO sector in transition societies of Central and Eastern Europe (CEE). It focuses on five key aspects of the NGO sector, including the legal environment, organizational capacity, financial viability, advocacy and public image. Each of these is assessed with three key questions in mind: what has been accomplished? what remains a problem? and do local actors recognize the nature of outstanding challenges and have a strategy and the capacity to tackle them? Each aspect is given a ranking on the Freedom House scale of 1-7, with 1 being the best.

Overview of NGO Sector: The size and dimension of the NGO sector in Macedonia is not easy to define. No single source document is available identifying and categorizing the organizations in the sector, although pieces of the picture can be obtained from various sources. Its overall size is generally described as including about 5,000 NGOs with active NGOs numbering perhaps as many as 250-500. These figures incorporate a wide range of organizations, including a large number of clubs, which are often purely social in nature, and interest groups, such as the pensioners association, with narrow focus. Many of these have their roots under the earlier socialist period. The sector also includes more civic-oriented entities such as environmental, women's, humanitarian and youth groups. The vast majority of these organizations are grass roots in nature, coming together to deal with problems in their respective communities. Typically, several similar organizations can be found in a single community, reflecting the ethnic and religious separations found in Macedonian society.

The vast majority of NGOs are institutionally weak and few have professional management, relying on volunteers to carry out the duties of the NGO. Training is therefore a continuing need and inefficient process at this time, because of "wastage". Most NGOs survive on grants provided by the donor community although a few obtain limited resources in their communities by carrying out local services, charitable work and bake sales, etc. Given the authoritarian history of the country, fear still exists within the NGO sector about local and national government reaction to their activities, although no instance of direct harassment has taken place in several years. On the other hand, cultural pressure threatens the sector, especially in communities with women's organizations which are actively involved in

community issues—generally seen as an inappropriate role for women. Both of these perceived and real constraints will take time and effort to overcome.

In sum, NGOs in Macedonia are generally weak, reflecting the characteristics of a new and incipient sector, i.e., parochial in interest, with weak management and undeveloped strategic thinking; uncomfortable with partnering with other NGOs; and exhibiting generally poor advocacy and fundraising skills.

Review of Results: As outlined above, each of the five aspects of the NGO sector were reviewed, the impact of the USAID-financed implementing entities in each area was reviewed, and the areas needing further attention were identified. The following highlights those results:

1. Legal Environment

a. Status of the Legal Environment

The 1990 Law for Social Organizations and Associations of Citizens currently governs the NGO sector. While NGOs have been registering under the law, it contains a number of gaps, ambiguities and restrictive provisions. Nonetheless, state institutions are not viewed as either harassing or unduly impeding NGO registration or development. To address these deficiencies, a new NGO law, entitled the Law of Associations and Foundations, has been drafted and submitted for approval to parliament by local NGO advocates. In that body, it has passed the “first reading” and is expected to be finalized and approved by parliament after the second reading, expected within months. The draft law has been distributed widely within Macedonia, and open round table meetings were held where governmental officials, NGO representatives, and other interested people were invited to comment on the draft law. As a result, changes to the initial draft were made. This open, participatory approach to law development has been touted by the GOM as a model for the handling new laws being developed in Macedonia. Plans are underway to design and hold workshops for the NGO community to explain the new NGO law. While tax laws affecting the NGO sector have not yet been drafted, assistance has been requested from the U.S. Treasury by the Finance Ministry and from the ICNL by the law faculty of the Skopje Law School, which will be involved in the drafting and review of the tax law. Efforts to integrate NGO law into the curricula of the Skopje Law School are underway, aimed at preparing lawyers to service the legal needs of the NGO sector. Discussions are also underway regarding the inclusion of material on the role of NGOs in society into the curricula of the Political Science Department of the University at Skopje.

Based on the legal environment described, a numerical ranking of 4 appears appropriate now with a 3 recommended once the new NGO law has been passed. With the passage of tax legislation affecting NGOs, efforts to train NGOs in the new legislation, and the availability of lawyers trained in the new NGO laws, a rating of 2 is possible by 2001.

b. Impact of USAID-financed Interventions

The Democracy Network recipient, ICNL, worked hand-in-hand with local efforts to develop the new NGO law. ICNL focused considerable time and energy to the drafting of the new law, provided model legislation, which was instrumental in developing the new NGO law, and technical assistance to the drafters on an as needed basis. An excellent relationship has been developed between ICNL and the Law Faculty responsible for drafting the new NGO law. ICNL is currently focusing on post-enactment activities such as developing a judicial training program, publication of a commentary on the law, and assisting with the integration of the new law into the law school curriculum.

c. Needs/Opportunities for the Future

With the passage of the new NGO law, ICNL's work currently underway will be important to the smooth implementation of the new law. These efforts need continued support to ensure that the new NGO law is properly implemented and understood by the NGO community. In addition, attention must now turn to the passage of tax legislation favorable to the NGO sector, including, inter alia, the granting of tax free status to registered NGOs and providing tax incentives to the individuals and the private sector for making donations to NGOs. Without the passage of this legislation, the sustainability of the NGO sector would be doubtful.

2. Organizational Capacity

a. Status of Organizational Capacity

Among local, grass roots NGOs, there continues to be a need for basic support to strengthen their institutional capabilities. However, indigenous intermediary NGOs today are providing only a fraction of the overall need. The Macedonia Center for International Cooperation (MCIC) is one of the few indigenous intermediary NGOs serving the local NGO community. It channels grants to local NGOs, with funding coming primarily from the Dutch government and Dutch Inter-Church AID. It also has a relatively small Program for Civic Society which provides training and other support aimed at improving the capacity of local NGOs. It also houses a small service center, located in its Skopje office, to attend to the basic informational needs of its NGOs. ODI, a past National Democratic Institute-supported NGO located in Gostivar, is providing services to the local NGO community there by offering office space and other services to up to five NGOs as well as computer training on a fee basis. The local branch of the Regional Environmental Center, located in Skopje, also offers some support services to the environmental community. Few other intermediary NGOs of note were found leading to the conclusion that the existing core of local practitioners and trainers available to the NGO sector is limited. As noted above, few local NGOs have professional management, most working on a volunteer basis. As a result, weaknesses were observed in their strategic planning, fundraising and advocacy skills and NGOs typically go from one small project to another without a long term vision or direction.

Based on the level of indigenous infrastructure in place to serve the needs of local NGO sector, a rating of no more than 4 appears appropriate. With the development of a cadre of professional managers, improved NGO transparency and accountability, strengthened NGO strategy and proposal writing skills, and the existence of ISOs in the NGO sector, a rating of 3 is possible by 2001.

b. Impact of USAID-financed Interventions

Institute for Sustainable Communities (ISC). ISC has done a credible job of working with and strengthening NGOs in Macedonia, especially in the environmental sector. Beyond making 70 small grants to the local NGO sector amounting to over \$300,000 over the past 3 years, it has strengthened the capacity of some 150 NGOs through its training program. Over the past 1½ years, this training has been provided by a 20-member Local Training Team composed of in-country trainers. Discussions have been initiated with the team about the desirability of “spinning it off” so that it can provide training to a wider group of local NGOs, ultimately on a sustainable basis. This initiative is consistent with the need to create indigenous capacity to provide training services to the NGO sector. ISC's training efforts have been instrumental in promoting serious thinking about fundraising and advocacy (see appropriate sections that follow).

Delphi. Delphi is serving an important role in the development of women's NGOs in Macedonia. It works solely with women's groups and prefers to work individually with these groups to develop proposals it finances and to assist NGOs in proposal writing as needed. It has used ISC to provide some basic skills training to its clients as well. It draws on local expertise wherever possible, whether Macedonian or from the other ex-Yugoslavian republics, thereby building up indigenous capacity in the region. It has a mailing network of about 50 women's NGOs, working however with fewer. It is strongly grass roots, issue oriented in its approach, working with women's groups concerned about violence in the home, women's health, improving schooling for children, single mothers etc. Although less successful in encouraging women to participate at the policy/advocacy level, it deals indirectly with the ethnic issues facing their communities by bringing together women's groups representing different ethnic and religious backgrounds to resolve common problems and delivering “conflict resolution” techniques subtly in the program.

Freedom House (FH). FH has increasingly provided important support to the strengthening of local NGOs. It has sent a number of Macedonian environmentalists to the US and other CEE countries under the U.S. Internship and the Regional Exchange Programs. Many of those participating are key members of local NGOs in the environmental movement, including a member of the Ecologist Movement of Macedonia who is coordinating the execution of the National Environmental Action Plan with the World Bank. FH has also provided an American Volunteer in International Development (AVID) Volunteer who is working to improve NGO/local government relationships and NGO fundraising—two key constraints to sustaining the NGO movement in the country. In addition to the local work in fundraising, FH is supporting a Funding Workshop for NGOs in the Southern tier CEE

countries. These activities provide needed exposure to approaches in other countries, important for cross fertilization, and skills for generating domestic and other resources for the NGO sector.

Catholic Relief Service (CRS). While not currently a recipient of USAID funds in Macedonia, CRS received a grant in 1994 to improve inter-ethnic relations by forming new parent councils (PCs), composed of parents from various ethnic backgrounds, and charging these PCs with developing recommendations for improving their children's schools. The project was evaluated as successful in developing civil society, primarily the PCs and National Parent's Association (NPA), and in increasing inter-ethnic dialogue and collaboration. The evaluation recommended the provision of follow on assistance to the effort, although there has been criticism that the national government now controls the NPA and the agenda.

c. Other Donors

Other than USAID and the Dutch, there appears to be no other major donors in the NGO sector. The program of the Open Society Institute in Macedonia is disbursed over a wide range of activities and is focusing very little attention directly on the NGO sector at this time. It has a small grant program for the NGO sector and offers a small service center for NGO use. EU-PHARE is doing very little in the NGO sector either, and does not expect to make any significant changes in its program until the year 2000 when its present 5-year program expires. It does have a small Micro Program that can fund small NGO proposals as well as those from other sectors. The local contact indicated that a delegation of authority may be expanded to allow the field office here to approve small projects in the future.

d Needs/Opportunities for the Future

As outlined above, there is a continuing need for basic as well as some tailored training for the NGO sector. Given the limited capacity in the country to provide this training (and technical assistance), the idea of creating an indigenous NGO Training Institute by spinning off the ISC Training Unit has merit. In addition, providing support to the MCIC Program of Civic Society could also fortify that organization's training capacity as well as its ability to provide technical assistance to the NGO community as well.

3. Financial Viability

a Status of Financial Viability

Given the incipient nature of the NGO movement in Macedonia, it appears that it will take many years before the stronger NGOs can become self sustainable. Over the next 5-7 years, outside donor assistance will be required. The reasons for this conclusion are several. The Macedonian economy is in poor condition, with GNP per capita estimated by the World Bank at \$850 and an unemployment rate estimated at between 30 and 35%.

These conditions do not support philanthropy among Macedonian businesses and individuals. Having said this, some giving is taking place, but it appears to be sporadic and provides for only a small portion of the actual needs of some NGOs. While the environment for fundraising is poor, a few NGOs are successfully seeking funds from their local communities, other donors and fee-for-service and membership dues. Furthermore, the poor economy also limits the ability of both municipal and central governments, if they should chose, to channel funding to the NGO sector to enable it to deliver social services that governments traditionally deliver but, because of incapacity, they cannot provide. A bright spot in this otherwise bleak picture is the high level of volunteerism evident in the NGO sector. Nearly all management and operational work of local, grass roots NGOs is done by volunteers from the respective communities.

Based on the current fundraising environment in the country, a ranking of 5 is appropriate. Given economic constraints, the lack of a domestic philanthropic culture, the tendency of donors to provide project rather than institutional support, and the lack of government support for NGO activities, it is unlikely that this would improve beyond a 4 by the year 2001.

b. Impact of USAID-financed Interventions

ISC. Management skills is one of the three key areas emphasized by ISC in its basic NGO training program in Macedonia. This area includes modules that focus on strategic planning, mission statements, project management, fundraising and project budgeting. In addition, some follow-up services are offered by the training unit to address questions and problems once the skills are delivered. However, because those receiving the training are predominately volunteers rather than professional, full time NGO employees, turnover is high, requiring many more to be trained than would otherwise be the case. This “wastage” will be a reality until such time as a critical mass of NGOs have stable, professional staffs to carry out the day-to-day affairs of the organization. Thus, continued training at the basic level will be a continuing need of the NGO sector for some time.

FH. The organization is contributing to NGO financial sustainability. In collaboration with ISC, it placed an AVID volunteer in Macedonia who is responsible for building fundraising skills. As part of this task, the volunteer is carrying out a Fundraising and Philanthropy Assessment for the Southern Tier, including Macedonia. This assessment will be used to provide background information to assist in the design of a train-the-trainer fundraising and philanthropy workshop being organized by ISC for NGO trainers from the four southern tier countries. This workshop is expected to be held this summer. The information collected by the AVID volunteer will also be provided to Macedonian NGOs and should provide useful insights for strengthening their financial sustainability. FH has also covered the costs of Macedonian NGO participation in the Rebirth of Volunteerism Conference last June which focused on the organization of voluntary work in support of the non-profit sector.

Delphi. As a general rule, the women's NGOs assisted by Delphi are newer, more fragile organizations. As a result, a large share of the Delphi funding was provided to groups for capacity building. Most groups had no previous experience in grant writing, budgeting, or financial reporting. Delphi's local staff provided extensive technical assistance which is strengthening these capacities. However, self-confidence and competence in management still remains rudimentary. At the same time, Delphi is introducing the concepts of cost sharing and income generation to these NGOs; however, progress in these areas is likely to be slow as is the achievement of financial sustainability.

c. Others

Few other donors or indigenous organizations are offering serious training in the NGO sector. MCIC, a local, intermediary NGO, has a small training effort as part of its Civic Society Program. This training is aimed at strengthening the capacity of its NGO clients. The breadth and quality of this training is unclear. However, a recent evaluation of its program emphasizes the need to focus more attention on training in MCIC's Civil Society Program, and the Director of the organization indicated that, based on past experience, the organization recognizes the need to develop new approaches and materials to train NGOs. If successful, this needed in-country, training capacity would contribute to strengthening NGO capacity and financial viability.

d. Needs/Opportunities for the Future

The area of NGO financial viability is a difficult one. Like other southern tier countries, the poor status of the Macedonian economy and the limited number of donors supporting civil society impedes the efforts of NGOs to become self sustainable. Given these conditions and the incipient nature of the sector, continued training in management, to improve efficiency, and in fundraising, to develop a more diversified base of funding, are key. The efforts of FH and ISC to develop a train-the-trainers workshop in fundraising and philanthropy should be supported, and its results disseminated as widely as possible. However, the methods and strategies developed at the workshop are not likely to have a serious impact on NGO financial viability until the economic conditions improve and the institutional capacity of the sector is strengthened.

4. Advocacy

a. Status of Advocacy

Because of the incipient nature of development and low level of confidence in much of the NGO sector, advocacy is not a principal area of activity by most NGOs in Macedonia. However, there are instances of advocacy at both the local and national level by indigenous NGOs. Environmental NGOs have had some success at the policy level. Based on a proposal presented to the central government on the protection of a region on Prespa Lake, the central government requested that the organization assume responsibility for the

undertaking. Another NGO has been asked to draft the law on the protection of the lime stone caves in the country. Others are working on the National Environmental Action Plan (NEAP) and the Local Environmental Action Plans which should lead to public policy changes as well. MCIC has been instrumental in putting the views of the NGO sector before government and the public. It has worked with government and Skopje law faculty on the new NGO registration law, facilitating round tables to discuss the draft law, helping to forge a consensus on the final version. An NGO in Tetovo, focused on youth and inter-ethnic tolerance, has been successful in advocating the need for a community based program to improve inter-ethnic tolerance and gaining the support of the local education and municipal officials and the private sector. Cooperation among NGOs, however, appears to be limited, constrained by ethnic issues and the lack of a sense of community within the sector. While the NGO sector does receive coverage in the media (both in the press and on TV), it does not appear to be using the media to advocate on issues, reflecting the sector's limited role in advocacy in general. As noted above, there is no evidence of overt official actions against NGOs although there is social pressure brought to bare on some NGOs.

Based on the status of advocacy observed in the sector to date, a rating on the sustainability index of 5 is appropriate. As synergies are created between local government and NGOs, and as the selection process for working with NGOs identifies NGOs with a high potential for advocacy activities, and as ISOs perform an advocacy function on behalf of the NGOs, a rating of 4 is feasible by the year 2001. Advances in this area are likely to be constrained by a centralized government which lacks outreach mechanisms and resources.

b. Impact of USAID-financed Interventions

ISC. Advocacy training is an important element of ISC's basic training program. This training coupled with the greater maturity of most environmental NGOs have contributed to a more active advocacy role by some of its "clients", several of which are outlined above.

Delphi. Women's NGOs are generally behind in their development when compared to other sectors of the community. General questions of organization, funding, and community-based issues consume much of their energy. However, Delphi has developed women advocacy trainers who have trained 45 local women in this area. Fifteen local women have participated in a regional advocacy conference focusing on advocacy for women's health, violence prevention, women in politics and governance—key issues among local women. These efforts have led to a number of initial advocacy efforts including dissemination of information on violence against women while another group is making violence visible through service delivery in Skopje and Kumanovo.

FH. To date FH appears to have provided only minimal support in the advocacy area. In May 1997, it co-sponsored with NDI an advocacy training seminar in Skopje to bring civic leaders and activists together to introduce them to the concept of advocacy and provide organizing skills needed to implement advocacy campaigns. These

seminars can be useful when done in support of local training and with NGOs with some experience in advocacy.

c. Others

Neither of the other donors nor MCIC appear to be providing meaningful support in the advocacy area.

d. Needs/Opportunities for the Future

There are instances in the current environment where NGO advocacy is taking place. As mentioned above, these include NGO involvement in national law drafting to community level, issue-based discussion and actions aimed at changing behavior. Advocacy efforts are therefore underway, albeit at a low level. If NGO success at advocacy is to increase, emphasis on advocacy by the OAR is essential, working through our network of grantees. A sharper focus by the grantees on advocacy and its links to change in the community and nation will appear to be useful. Given USAID's limited time and funding, consideration should be given to focusing financial support on those NGOs that have the best potential to carry out advocacy in the near to medium term so that demonstrations of what can be accomplished through advocacy are evident to the NGO community and general public at large.

5. Public Image

a. Status of Public Image

The overall sector identity is weak which is an obstacle to the promotion of a positive image for NGOs generally. In addition, there are few intermediary NGOs, or ISOs, which advance the image of the sector and interface with the public or government. This has resulted in a low level of public awareness regarding NGOs' work. At the local level, however, an increasing number of NGOs have developed, and this growth may create an enhanced public image for NGOs, particularly those which are able to deliver the necessary basic services which government can no longer provide. Increased transparency and accountability within NGOs would help to promote their public image and make people more aware of what it is that NGOs are doing in their communities.

NGOs report few barriers in access to media coverage, although the media is also divided along ethnic lines which creates obstacles in placing stories about the work, for example, of Albanian NGOs in a Macedonian newspaper and vice versa. Television appears to be the most powerful medium here, with TVs reported to be in 85% of all homes. There was little anecdotal evidence to suggest NGOs received coverage at this level. Search for Common Ground has specifically targeted a television audience with its program *Path to Agreement* which is discussed below.

There appears to be a willingness of government officials to engage the NGO sector, but not necessarily to provide it with resources. Benign indifference may be the most apt characterization. There were reports that government may not be working very closely with NGOs because it fears that they are thinly-veiled political parties at worst and sources of opposition at best. In spite of any lingering tensions, there have been cases where government sought the expertise of specific NGOs in the environment sector, and even handed over responsibility for natural resource management to one NGO. Mutual self-interest provided common ground for collaboration. On the whole, government at the local level lacks authority or capacity for outreach and constituent links, and as a result, NGOs' work may be undervalued.

A rating of no more than 5 seems appropriate. Given the lack of a sector identity which limits the NGO community's ability to get its message out to the public, the limited interface between NGOs and government, and the ethnic divisions of the media, a rating of 4 by the year 2001 may be possible.

b. Impact of the USAID-financed Interventions

ISC. ISC contributes to the public image of NGOs through community activities, links with the media and government. For example, ISC has provided grants to NGOs such as the Roma Women's Association for the preparation of four short television "spots" which are regularly aired on two local Roma stations. These spots encourage responsible behavior to protect natural resources and an overall concern for the environment. The Youth Council in Kumanovo received funding from ISC and local donations in order to produce a television program designed to increase awareness about environmental problems. This resulted in 24 TV programs, 24 radio programs, and 24 newspaper articles. According to ISC the relationship between environmental NGOs in Macedonia and the national media appears strong, and there is a corps of environmental reporters in TV, radio and print. This promotes public awareness of NGOs' activities. The Roma Women's Association ran a two-weekend clean-up project in partnership with the mayor of Shuto Orizari and his staff, mobilizing citizens to work together and to take an active role in cleaning up their environment. ISC has worked with government and NGOs in the implementation of Local Environmental Action Plans (LEAP).

Delphi. Delphi works with women's NGOs to raise awareness in the community of women's issues, and to empower women to take an active role in addressing these problems. Examples of these groups' links with media and public outreach include the Organization of Women of Kumanovo which received a grant to increase women's issues coverage on private local television. In 1997 Delphi focused its resources on identifying new leaders and issue based networks that were willing to work in collaboration with other NGOs, public officials and the media in support of specific issue-based action initiatives. Drawing together an inter-ethnic group of new, young leaders, Delphi organized three special training programs to galvanize women's leadership and interest. The topics were: Regional Public Policy Advocacy Analysis and Training; Intensive International Public Policy Advocacy

Training; Women's Leadership for Local Action: NGOs, Public Officials and the Media Working Together (planned for August).

c. Others

MCIC is attempting to increase public awareness of the NGO sector by conducting analysis of how NGOs are covered in the daily press; holding round table discussions on issues which concern the sector, such as the draft NGO legislation; and providing support and resources to NGOs through its Civic Society Program. The latter may help increase public perceptions of NGOs by helping to develop NGOs which are transparent and accountable.

The Association for Democratic Initiatives (ADI), established with the help of National Democratic Institute, has carried out public opinion polling on the new laws for territorial division and local elections, organized the first candidate debate ever in Macedonia which was attended by 600 people and the media, and is hosting the Second Civic Summit with NGO leaders from seven countries. These activities help to raise the profile of NGOs.

Search for Common Ground/Macedonia (SCGM) works in the areas of media and education. SCGM co-produced a 7-part series, *Path to Agreement*, with independent A-1 Television (Skopje). This covered sensitive social, educational, and political topics from the points of view of the various ethnic communities and provoked debates among viewers. SCGM also held training seminars for journalists and editors, and as a result, conducted three inter-ethnic reporting projects involving Macedonian, Albanian, and Turkish journalists from both the state-supported and private press, each resulting in a series of four co-authored articles on a variety of topics. A similar project was undertaken with women reporters from two daily papers who attended seminars on women's issues held by ESE, a local women's NGO. SCGM has a pending project proposal to produce a children's television program aimed to teach children active tolerance and intercultural literacy, and to provide them with conflict resolution skills.

d. Needs/Opportunities for the Future

There is a need to encourage inter-ethnic reporting of NGOs' work in order to create a common understanding of their role in society, and to enhance the public's perception of their work. Links with local government should also be encouraged in order to increase their awareness of the sector and willingness to engage it. Consideration should be given to supporting activities, like those of SCGM, which encourage inter-ethnic collaboration and dissemination of information to all media outlets may help to counter the polarization and separation of ethnic groups which currently exists within media and NGO structures, while the spread of information and the identification of common problems or solutions helps to dispel stereotypes.

Recommendations:

Based on the findings outlined above, the following recommendations are offered:

1. Continue NGO sector support

Most fundamentally, it is recommended that the OAR/Macedonia continue to support the NGO sector. A more detailed rationale for this recommendation is provided in appendix i. In sum, the rationale behind this recommendation is three fold:

NGOs activities are increasing popular participation by helping people to identify community problems, mobilizing citizens around common interests and solutions to those problems, and, in the process, helping people to understand their rights, roles and responsibilities in a democratic society.

NGO activities are tools for helping to encourage ethnic accommodation by fostering inter-ethnic dialogue and collaboration to solve common problems.

NGO activities are helping to meet citizens' basic needs, and thus stave off backsliding on democratic gains which often occurs when people feel that government and the market have not met their expectations. Providing services, particularly in the areas of education and health, to marginalized groups and those which have been most severely affected by the worsening economic situation, may help to alleviate possible ethnic tensions and disputes over uneven access to basic services.

2. Be More Selective in Choosing NGOs to Receive USAID Support

In light of the rationale outlined in one above, it is recommended that the mission use more selective criteria to chose those to receive assistance, including NGOs that either :

Are managed in a democratic, participatory manner that allows those working on programs to have a say in its operations;

Carry out programs that in some meaningful way promote inter-ethnic tolerance and accommodation;

Perform or have the potential to perform advocacy activities in support of NGO interests; and/or have the potential to become indigenous intermediary support organizations (ISOs) whose functions include promoting and protecting the interests of

the NGO sector, providing training and resources to NGOs, serving as a liaison between NGOs and the donor community, and/or linking NGOs to one another.

3. Support Collection and Dissemination of Information on the Sector

Little reliable data exists on the number and nature of NGOs currently operating in Macedonia. Numbers range from 5,000 registered NGOs with an estimated 250-500 of these actually active in the country. A March 1997 directory published by a national NGO records 195 NGOs, while a revised edition of the publication lists 214. Basic information is needed on these organizations including their mission, number of members, location, funding sources. Other areas of interest include capacity of these organizations, their needs, activities, and financial status in order to provide appropriate, targeted support and to track these organizations' development over time. Registration under the new NGO law will provide an opportunity to acquire the necessary data, at least regarding which NGOs are officially registered and under which categories. Once the basics have been established, efforts can be made to define the different layers of the NGO sector and to discern which ones are most appropriate for targeted support.

4. Promote Donor Coordination and NGO Networking

There is a dearth of donor support for the NGO sector, with little funding or engagement on these issues coming from actors such as EU-PHARE, the World Bank, and the other bilateral assistance programs (with the exception of the Dutch and some piecemeal support from the British). Coordination and NGO networking activities are required to help maximize the limited amount of funding available for NGOs specifically and civil society generally, and to strengthen the sector identity and capacity. Donor coordination could occur through quarterly or annual meetings where NGO activities are discussed and areas of complementarity or overlap are identified. Such dialogue could enable the donors to how best to approach the development of the NGO sector by identifying viable organizations and discussing how best to meet these organizations' needs. Coordination could also ensure that assistance for NGOs was distributed as evenly as possible across the regions and among the ethnic groups. It would also strengthen the possibility of complementarity between donor programs, as well as among the different components of each program. Most importantly, it might provide USAID an opportunity, through dialogue, to leverage additional resources for civil society programs.

There is a parallel need to strengthen forums for NGOs to identify common action agendas and where possible to work collectively to solve problems. Currently, no such mechanism exists and while there are umbrella bodies of NGOs, these are dedicated to particular ethnic groups such as Albanian women or Roma youth, or specific sectors such as women's issues or the environment. One option for addressing this weakness is to support MCIC or another national NGO to host a regular meeting where NGOs discuss problems,

share information about donor funding priorities, assist one another in appropriate ways. A related option might be to sponsor an annual NGO Fair where all NGOs are invited to display their work, and donors and government as well as the public are invited to visit the exhibitions and see for themselves what the NGO community is doing.

In addition to advancing the profile and needs of the sector, NGO collaboration would also serve in part to bring together the different ethnic groups in an informal setting, giving them another opportunity to deal with one another, particularly when there are common interests. Given the separation of ethnic groups, which is the norm, people may have limited experience interacting with people of different backgrounds, or have little incentive to do so on their own. A desire to solve the problems common to their NGOs provides the opportunity to coalesce around related interests.

As possible and where appropriate, government should be included in these discussions or at least apprised of discussions in order to identify where synergies may be found between NGOs' efforts and those of government.

5. Strengthen Potential Local ISOs

As discussed in earlier sections, the NGO sector in Macedonia is weak, fragmented and divided along ethnic lines. Most of the dynamic activity appears to be occurring at the grassroots level, with few indigenous NGOs or intermediary support organizations (ISOs) available to facilitate these efforts. The goals of the grassroots groups appear to be developmental and oriented toward alleviation of particular problems, rather than serving as part of a broader strategy to articulate interests and engage government. The orientation of the sector affects NGOs' ability to launch effective advocacy campaigns at the national level. Moving beyond the locale-specific development activities is a crucial step for the development of the NGO sector, particularly because any systemic changes that will occur will most likely result from national level advocacy, given the centralization of government and the limited capacity of local government to effect change, make decisions, and allocate resources.

Thus, there is a need to identify and support potential ISOs which can provide training, resources, and advocacy on behalf of the NGO community. One potential target of opportunity to promote capacity building programs for local NGOs while strengthening ISOs which deliver them is to provide support to MCIC and its Program for Civic Society (PCS). PCS has provided a small projects fund, training in basic skills (computer, project cycle, communication and negotiations for leaders, and overall institutional development), a service center (providing fax and photocopier facilities, financial and legal advice), and information (databases, bulletins, library). Support for MCIC's PCS may also help to diversify MCIC's donor funding base, and to ensure the financial viability of one of the few national, broadly focused ISOs which exists in Macedonia to serve the NGO community.

Another option for expanding the numbers of ISOs is to “indigenize” the local organizations of ISC and Delphi by the time of close-out. There is a considerable capacity and infrastructure existing within these organizations and these could promote capacity building within the sectors in which they work, i.e. the environment and women's issues respectively. A needs assessment of each organization could be undertaken to determine what level of support and effort would be required to localize these organizations by the time of close-out. USAID could either refocus current assistance to meet these goals, channel additional funding to the organizations, or assist the organizations in identifying outside sources of donor or foundation funding in order to support this “indigenization” process.

6. Continue Training and Technical Assistance Efforts

NGOs continue to require training programs at two levels: basic training and targeted technical support. These training programs could be incorporated into overall capacity building initiatives, or could serve as stand alone activities, building on the existing work of ISC and Delphi. Factors to consider in the design of training programs include the age of trainers (since many older Macedonians apparently resent training from those who are younger than themselves), and the nature of delivery. Action-oriented, participatory training appears to be more effective in this context, rather than lectures where people have limited opportunity to apply what they have learned. Sustained interventions over time have the most potential for effectiveness, rather than programs which take one or two people out of their country or organizational context, although this approach has merits for international or regional networking.

Basic training should be continued in the following areas:

- strategy design
- proposal writing
- project planning, implementation, evaluation
- budgeting and accounting
- fundraising
- media relations
- government relations
- advocacy
- NGO governance and conflict resolution skills

There is a related need for targeted technical assistance, developed through train-the-trainers programs like those of ISC, or by drawing on international, regional, or national experts who can provide in-house, intensive training around one particular issue. These technical assistants could be called in to “trouble shoot” and problem solve for NGOs, helping them to develop in-house technical skill to meet their needs in areas such as grant-writing, project management, financial management, advocacy, and computer literacy.

One final type of training the mission may wish to consider is training for grantees and partners on results orientation and strategic objective frameworks. Grantees appear to need further assistance in order to link their grassroots work to realization of democracy and governance goals of USAID.

7. Encourage Synergies with Local Government Programs

Local "grassroots" NGOs live side-by-side with municipal officials and yet little engagement occurs between these groups. To foster better relationships, leading to public dialogue and improved services, new mechanisms need to be found in some municipalities. It is recommended that SO 2.1 and 2.3 grantees coordinate closely with the idea of fostering interaction between NGOs and their local governments with the end of gaining official recognition and support for programs which provide services in the community. This will help to ensure that NGOs are not increasing demands on government through popular participation and advocacy efforts, without government receiving support to develop the capacity needed to respond to the claims made on it.

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Appendix i

The rationale for continuing support to the NGO sector in Macedonia stems from a strategic concern that is two-fold. First, the NGO sector is weak and not yet institutionalized. NGO capacities are limited. Many NGOs have formed as a means to address local problems and have shown little ability, or desire, to partner with other NGOs, promote their interests on a broader scale through advocacy, or connect their interests to electoral politics. In some ways, this is the NGO sector's strength. It is grassroots oriented, driven by community needs and responding to problems which are of primary importance to those people who are part of the NGO or serviced by it. Thus, support for the NGO sector should capitalize on these strengths and enhance NGO ability to service client groups. Over time this may lead to increased advocacy efforts or connections with other NGOs and the electoral process. In the meantime, NGO success in helping people to address their own problems can help to enhance the public image of NGOs and to consolidate a sectoral identity.

Secondly, Macedonia faces ethnic tensions which could be exacerbated by any hostilities in Kosovo or by worsening national economic conditions which disproportionately affect one ethnic group more than another. NGOs can help to ameliorate this ethnic tension by providing an outlet for the energies of the various ethnic groups and enabling them to provide services to marginalized groups, thus defusing tensions borne of unequal access to resources. In addition, NGO activities have the potential for bringing together people of different ethnic backgrounds around common goals, or provide a forum for informal dialogue through training activities. In these fora, ethnic groups can learn to deal with one another and can be provided with training in conflict resolution.

A democracy and governance strategy which includes support to NGOs may have a number of benefits. First, NGOs can assist the de facto decentralization of government by facilitating the provision of services at the local level and thus alleviate some of the pressures on government, particularly during the early stages as market mechanisms are taking root and democratic institutions and norms are developing. In the 1996 World Development Report, the World Bank recommended that nascent democratic regimes devolve some social service responsibilities to the NGO sector, in order to complement the state's capability. Ensuring that citizens have equal and unfettered access to basic services through NGO activities helps to avoid the backsliding on democratic gains which can occur when people feel the government and market have not met their expectations. However, while NGOs provide valuable services, they should not bypass government or create alternative delivery systems which run parallel to official services provided by government. Rather, NGOs should help to integrate minorities or marginalized people into the existing system.

Secondly, cross fertilization may exist between NGO work and an economic growth strategy if a segment of the NGO sector develops capability to lobby for economic reforms, or if business associations develop the capacity, perhaps through training received from the NGO sector support organizations, to lobby for policies which promote economic growth and development. As the NGO sector matures, and the market evolves, it may be possible for intersectoral partnerships to develop between government, NGOs and business.

Finally, and perhaps most importantly, NGOs help to consolidate democratic reforms by contributing to substantive democracy through the promotion of democratic norms and culture. NGOs encourage active citizen participation through lobbying and advocacy efforts, they assist groups -- particularly the marginalized -- with the articulation of needs and the design and implementation of activities which will meet those needs, and they enable citizens, through their activities, to acquire a better understanding of their rights, roles, and responsibilities in a democratic society.

STRATEGY FOR LOCAL GOVERNMENT

STRATEGIC OBJECTIVE 2.3: MORE EFFECTIVE, RESPONSIVE AND ACCOUNTABLE LOCAL GOVERNMENT

1. BACKGROUND AND STATEMENT OF STRATEGY

Recent and expected changes in Macedonia support a modification of the current strategy towards one that promotes decentralization and democracy at the local government level. Recent changes in Macedonia include; a new legal framework for local government with increased local authorities; the difficult economic climate which has diminished central funding of local needs, and finally the pending national elections which may lead to a more reformist and less centralized government. The confluence of events and issues make this a key moment to affect long-term change in the powers of local governments to manage and finance services, and open decision-making to the citizens it serves.

The local government program which ends in May 1998 targeted a modest number of pilot cities with the aim of developing public participation and improving local management capacities. While there were isolated successes, without complimentary work at the national level, new skills and perspectives developed locally were largely inappropriate in the centralized legal and administrative framework.

It is recommended that a new strategy for assistance, reflecting the new priorities and opportunities resulting from changes in Macedonia, work on two tracks to support decentralization and devolution. One the one hand at the national level to assist in policy reforms, and at the local level to develop local capacity to implement expanded authority and open decision-making to public participation. The emphasis should also shift from concentration on a few pilot cities to combining that with wholesaling methods and techniques to all interested municipalities through trainings and the strengthening of professional associations.

2. PROBLEM ANALYSIS

a. Legal Framework

The Government of Macedonia(GOM) is in the process of creating a new legislative framework which significantly affects the authority of local governments and its relationship with the central government. The most important laws to affect local government are: the law on territorial division, the law on transformation of enterprises with social capital, and the law

on local self government of 1995. While this last law provided a framework with the potential for delegation of many attributions and powers to local government, there is uncertainty and debate as to the degree of decentralization appropriate at this time(ethnic conflicts, nation building, political competition), and a major policy dialogue resulting in decisions which resolve the decentralization of authority and responsibility is needed to complete the enabling legislation.

Under the law in its current form, local government authority is circumscribed, and highly controlled by the central government. There is limited leeway for local government decision making; many services are implemented by the central line ministry represented in the municipality, and overlapping and potentially conflicting responsibilities have been allocated to both levels of government.

In the area of municipal service provision, local governments have clearly gained in authority through the new law; the mayor and city council now control of the formerly independent municipal utility and public works companies(joint state and employee stockholding companies created to "privatize" the independent state companies). Nonetheless, the lack of clear implementing regulations has led to widely differing interpretations of the extent of new authority, compounded by lack of adequate local management capacity.

In addition to completing a legal framework for local government and eliminating conflicts between laws, the GOM must clarify the the degree of responsibility and authority it is willing to decentralize and provide clear implementing regulations. The confused situation at the present time, pressure from donors such as EU Phare, have led central ministries to recognize that a greater degree of decentralization of authority and responsibility will be necessary and consequently, there is a new and altered opportunity for achieving policy reform in decentralization of authority.

b. Municipal Finance and Infrastructure Investment

Local government activities are financed through a combination of local taxes and targeted grants from central government. Revenue sources are prescribed by law and severely limited in number, and the central government retains power not only to set tax rates, but to cap the total budget financed through local taxes. Centrally-determined budget limits are based on a formula which does not adequately measure needs or revenue raising potential, and the locally controlled funds are insufficient to cover even the limited locally mandated responsibilities. As a further disincentive to sound financial planning and management, taxes collected in excess of the centrally defined budget limit go back to central government, thus penalizing well managed towns. Municipalities may also impose an additional special purpose tax, often for capital improvements;while some municipalities use this authority, many refuse, claiming that the high tax burden combined with economic problems makes it politically unfeasible.

The law on local self government shifted the responsibility for financing urban services from joint stockholding companies (utility companies) to the municipalities, without the accompanying revenue raising authority for operations or capital investments. While the Law includes new control and management powers such as authority to hire and fire management, to appoint a majority of the Board, and to approve the budget and receive profits, the authority required to finance network improvements and capital investments have not followed.

Water, sewerage, transportation and solid waste collection are low, barely covering operating expenses (Skopje is currently only half of the affordability index established by the World Bank) yet rate raises, requiring central government approval, are currently frozen. Even small repairs and system improvements cannot currently be financed from revenues, and water leakage rates approach 50-60% of production. Furthermore, billing collection rates are low, non-payers rarely have services cut, and many customers are unmetered. Local governments will be required to deal with lack of incentives for maximization of profits, lack of efficient service delivery, unrealistic tariffs, poor bill collection rates, and deferred maintenance. Furthermore, environmental infrastructure does not meet European standards; there is only one wastewater treatment plant (at Lake Ohrid; Skopje remains unserved) and both residential and industrial wastes directly pollute both land and water courses.

Capital improvements are almost entirely financed by central government grants from a variety of special funds, with allocation based on central government priorities rather than local needs. In 1997, \$200,000 was allocated from the national budget for urban infrastructure needs, indicative of the low level of capital investment. Credit for infrastructure investments is unknown, but despite the need for an influx of capital to improve standards, the central government is not keen on incurring debt in this sector.

Measures need to be taken at central and local level to increase local revenues, meet capital investment needs, and provide more local control over resources. At the central level, a more transparent system of capital grants needs to be developed; a portion of centrally collected taxes should go to local government (EU Phare's Public Administration program intends to work on a new sharing formula); the cap on local tax rates, and budgets must be lifted, and an influx of investment capital is needed to meet infrastructure needs. At the local level, improving the capacity of staff to better manage their resources and assume new responsibilities is imperative.

c. Municipal Management

Management functions for local services are carried out by municipal staff, staff of the public service enterprises, and locally based Ministry personnel, depending on the allocation of responsibility. Municipal staff is small, and due to its circumscribed financial and functional responsibilities, in many cases lacks the skills to effectively implement its current mandate, especially concerning control and oversight of the enterprises. Public service enterprises need reorganization and more effective cost control and customer service

techniques. Were more functions to be decentralized or devolved to local authorities, staff capacity would need to be reinforced to carry out these tasks, and a strategy which includes decentralization of functions to local government should be paralleled by development of the requisite local competence.

d. Inter-Governmental Relations

The structure of government in the Republic of Macedonia is based on a strong central government and 123 relatively weak municipal governments (there are no regional bodies). Recent legislation has given more authority to local governments, yet many functions and decision-making powers often under the purview of a local government are controlled by one of a host of central ministries. While nine ministries have representatives stationed municipalities (in some cases over 60 percent of the ministry's work force) they are little more than administrative arms of the ministries. On many issues of fundamental local interest, decision-making power is centralized in Skopje.

This situation has created serious impediments to good governance at the local level. In physical planning, the Ministry of Urban Planning establish city master plans (approved by city councils) subsequent licensing and permitting decisions made by a variety of central authorities in Skopje may be at odds with established ordinances. The lack of local coordination and oversight in planning and licensing has created a problem of illegal construction and haphazard development. Local governments are trying to be responsive to citizens by planning for social and economic development fundamental decisions needed to implement a local vision are not within their power.

This situation is mirrored in a host of other line-ministries functions where contradictory rights, responsibilities, and authorities create a confusing situation for municipal officials and citizens. Unlike other countries in the region, there is no central ministry or department to harmonize policies and inter-face with municipalities. As a starting point implementation guidelines and a rational allocation of decision-making powers between local and central government must be determined. This can only be accomplished and implemented through building a consensus vision at the central level - across ministries - and demonstrating local governments' competencies at the municipal level.

A case for increased local authority is complicated by the recent expansion in the number of municipalities from 34 to 123 under the *Law on Territorial Division*. Many of the "new" 89 municipalities lack even the most rudimentary administrative capacity, staff and budgetary resources - a municipal government in name only. With this legislation, the GOM has strengthened its case for maintaining a strong presence at the city level while at the same time further diminishing already scarce resources available for municipalities. This initiative reflects the desire to maintain control over ethnically Albanian municipalities in western Macedonia. The creation of 89 additional municipalities (some in virtually unpopulated areas) is an issue of debate within the GOM and may be re-considered.

e. Citizen Participation in Local Governance

Citizen participation in local decision-making is impeded by the very structure of government at the local level. In areas of ministerial control evidence suggest that citizens feel frustrated and poorly served by their government. Ninety percent of the 160 dispute cases recently filed before the newly created Office of the National Ombudsman involve citizen disputes over permits, licenses and other ministerial functions where citizens feel government is being non-responsive. And while local Ministry officials have no decision-making power it is difficult - on these issues - to bring citizens into the decision-making fold that takes place in Skopje.

Where local government is gaining increased local authorities over services ill require building public support to improve management and increased infrastructure investment. The lack of outside resources will force local governments to look at either increasing service rates or impose a local self-tax for infrastructure improvement. Currently, local governments are reluctant to undertake such measures without local support. Local governments will need stronger institutionalized mechanisms to garner citizen support for financial decisions.

Municipal officials do not adequately participate in national decision-making on local issues. There is an Association of Municipalities established by the law on Local Self Government but it functions as an officials organ on the central government. Many municipal officials express the need for a forum for open discussion of common interests, a voice for dialogue with central authorities, and a vehicle to identify and access professional training opportunities. The upcoming election of a new Association leader may energize and de-politicize that organization. However budget officers, city managers and architects also need and parallel organizations to represent their interests and for professional development.

f. Conclusions

The GOM is still evolving laws and structures to administer the seven year old country. The economic situation of the country, its political-ethnic problems and the transitional status are causal factors, and problems need to be resolved concerning local government. These problems can be summarized as follows:

- * Structural Issues concerning allocations of responsibility and authority to different levels of government: among Ministries, between central and local government, between local government and service companies, and with non-viable municipalities.

- * Lack of decentralization of authority and responsibility to local governments, both functionally, and fiscally(control and access to financial resources).

- *Inadequate infrastructure to meet European environmental standards and lack of a coherent policy at the national and local level to finance the capital investment needs.

*Inadequate citizen participation in decision-making due to overcentralization, and lack of an organized voice to represent local government interests.

3. USAID INTERVENTIONS

a. Attributes of Local Government

Democratic local government assumes a variety of forms but successful systems share a number of fundamental attributes. Taken as a whole, these comprise a long-term vision to which countries can aspire and constitute a basis for selecting a strategy and targets which can be achieved in Macedonia.

1. LEGAL SUSTAINABILITY

- *Local Officials are freely and openly elected
- *Local government authority and autonomy are legally guaranteed
- *Roles and responsibilities are clearly defined

2. DEMOCRATIC PROCESS

- *Local governments encourage citizen participation and are responsive to citizens' needs
- *Municipal procedures are efficient and fair
- *Budgets and Financial controls are transparent and informative
- *Procedures, laws and regulations encourage private sector participation and economic development

3. RESOURCES

- *A predictable, timely, fair and transparent system of intergovernmental transfers is in place
- *Cities raise and determine own-source revenues
- *Cities are creditworthy and have the authority to borrow
- *A municipal credit market exists

4. MUNICIPAL SERVICES AND ASSETS

- *Cities plan and prioritize infrastructure development and service delivery
- *Services are delivered on a market-oriented basis
- *Subsidies, where necessary, are transparent and means-tested
- *Assets not directly related to municipal management are privately owned
- *Private sector provision of services is maximized where it can provide higher quality and greater efficiency

5. INSTITUTIONAL SUPPORT SYSTEMS

- *Non-partisan municipal and professional organizations represent city interests to national government and provide training and information to members

*Universities and training institutions offer curricula in municipal management

*Universities and research institutions support urban research

b. Opportunities and constraints for a local government program

The basis for determining the strategy rests upon a comparison of the attributes of a successful local government and the reality in Macedonia. Tempering this analysis, other criteria are equally important:

- assumptions about the political will for reforms
- targets of opportunity for interventions
- realistic and achievable results within the time frame of USAID presence
- budgetary constraints
- activities of other donors
- linkages to other USAID strategic objectives

Clashing Symbols

The Status of Ethnic Tension and Conflict in Macedonia

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Disclaimer: The views expressed herein are my own, and do not necessarily reflect the position of USAID/Macedonia or USAID/Washington.

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Executive Summary:

To date, Macedonia has escaped the violence that has plagued Croatia, Serbia, Bosnia and Kosovo since the break-up of the Yugoslav Federation in 1991. Fears that violence could spread led to the UN Preventive Deployment in Macedonia in 1992. Despite this, ethnic tensions between Macedonians and Albanians have grown, particularly over the past five years, and are now seen as threatening a new round of violence. I was asked to come to Macedonia to evaluate these tensions in light of how they are likely to affect implementation of the USAID/Macedonia program.

The current situation has two sets of actors, Macedonians and Albanians. Other ethnic groups are too small to enter into the equation. All of the current lines of tension lie between these two, and both sides feel that their existence as a people is at stake. The Albanians have sympathetic neighbors in Albania and Kosovo. This type of situation has the greatest possibility of deterioration into ethnic violence, as has been seen, for example, in Rwanda, Sri Lanka or between Israelis and Arabs. This makes awareness of the tensions a minimum prerequisite for any effective development programming.

The fundamental disagreement between the two groups is that Macedonians feel that Albanians are unwilling to become Macedonian, and actively threaten the existence of the state. Albanians feel that Macedonians are depriving them of rights they held under Yugoslavia, such as the right of education in their own language, access to jobs, and the right to use their flag. Feelings on each side have become very strong, and while there have been incidents where demonstrations have turned violent, the situation has not yet deteriorated into individual acts of ethnic hatred or terrorism.

Despite this, there is reason to hope that Macedonia can still escape violent conflict. Both the government and the Albanian parties have generally shown restraint, and some people have friendships going across ethnic lines. Several NGOs have done good work promoting conflict resolution and ethnic toleration. Business relationships also promote toleration.

The principle recommendations for USAID to address this as a cross cutting issue are:

1. Work with political parties to help them establish economic and social platforms and to help them establish constituent communication and services, thus weaning them from 'big man' and ethnic tension campaigns.
2. Follow the laws leading up to this fall's elections very closely, including the electoral districting laws. The mission should consider having one of its elections cooperating agencies do an analysis of the body of these laws to estimate how Albanians and Macedonians will fare under the scenarios that are established. This can be used to predict any difficulties that might arise during the campaign, elections, or formation of a government following elections, and may be useful as an early warning system for increasing tensions.

3. Continue with a major focus on economic development. Ensure that all ED projects are developed to (1) increase inter-ethnic contact, (2) ensure that project managers are aware that conflict will occur in these settings, and (3) include mechanisms to deal with the conflict when it arises. The mission will also wish to carefully monitor access to economic benefits, to ensure that the perception of fairness across ethnic boundaries is maintained.
4. Establish teams of trained Macedonian/Albanian mediators who can be used to intervene in conflict situations. The basic concept would be that leaders, preferably those respected by both sides, would be trained to work together to help resolve tense situations both in the private and public sector. Hopefully, they could gain regional stature by being participants on international mediation teams, but this would take time and experience. Ultimately, these teams should be capable of providing mediation services at the highest level. This can probably best be accomplished through some of the NGOs currently active in Macedonia.
5. Use NGO and other contacts to informally monitor the situation, to ensure that the mission is aware of impending violence.
6. Continue NGO funding for ethnic tolerance, conflict resolution, impartial journalism, media programs, local NGO strengthening and NGO political involvement.
7. Given the current tension between ethnic groups and the cultural difficulties in resolving differences through meetings, the mission will probably not wish to sponsor workshops that directly address ethnic differences. Unless conditions are right, this type of workshop has not been shown to be particularly effective. Following the elections, the Mission may wish to reevaluate the situation to determine whether Establishment of trained teams of mediators to intervene in specific situations, as described above, will probably be more effective.
8. The Mission will want to monitor involvement in decentralization very carefully. If it is done to strengthen municipality management, this will probably cause no problems and will directly address the concerns of the mid-level elite. Becoming involved in decentralization at a policy level will probably result in the Mission being seen as being pro-Albanian.

Background:

Macedonia is a small state that was formed out of the break-up of the Ottoman Empire. The area of the present republic first became part of the Kingdom of Serbs, Croats and Slovenes in 1919, and then became one of the six republics of the Yugoslav Federation in 1945. Following the breakup of the Federation in 1991, Macedonia became an independent state. Macedonia is surrounded by Greece, Albania, Serbia and Bulgaria, all of whom have had designs on part or all of its territory at one time or another. These countries are known as the 'four fires' or 'four wolves' who are seen as lurking, waiting for their chance to strike. In part to establish Yugoslav and Macedonian¹ claims to this territory, Marshall Tito directed that a Macedonian dictionary be developed in 1948, providing an argument against Bulgarian claims that Macedonian is simply a dialect of Bulgarian.

The 1994 census² reports that the total population of 2.1 million is divided into 1.4 million Macedonians (67%), 484,000 Albanians (23%), and some 24 other ethnic groups, of whom the most important are the Turks (4%), Slavs (2%), Roma (2%), Torbishi (Slavic Muslims) and Vlachs. The Albanians dispute these figures, claiming that they comprise 40% of the population. Many observers feel that a more accurate figure is around 30%. While the smaller ethnic groups are significant in terms of human rights issues and equal access to social and economic benefits, clearly the most important divide is between the Macedonians and the Albanians. Overall population growth has been slow, averaging about 1.4% per year. According to official calculations, the proportion of Albanians has increased slowly, from about 17% in 1971 to 20% in 1981 and 23% in 1994³. One of the reasons for the differences between the official and unofficial estimates of the numbers of Albanians may be that the 1994 population figures exclude persons with a residence permit who have been in the country less than one year and refugees. Many Albanians who have fled difficult circumstances in Kosovo and Albania have not taken out residence permits and therefore may be excluded from the census figures.

According to enrollment figures for 1995/6, 28% of elementary students and 11% of secondary students are taught in Albanian⁴. Officials estimate the percent of Albanians studying at the two state universities in Macedonia has increased from 4% in 1992 to 7.25% in 1997⁵. These figures document that Albanians are seriously under represented at the secondary and university level.

Recent History:

Under the Ottoman empire and through the last few years of Yugoslavia, there was little or no overt tension between Macedonians and Albanians. The best metaphor I heard was that they were two peoples moving on parallel roads, until events of the mid eighties and nineties brought them, not so much into collision, but into a difficult merge onto a single highway.

Under the Republic of Yugoslavia, Kosovo, the region with the largest Albanian population, was part of the Republic of Serbia, rather than being a separate republic like Macedonia^{6,7}. By 1968, there were new demands for a seventh republic, to be made up of the predominantly ethnic Albanian areas in Kosovo and Macedonia. To calm ethnic unrest that partly developed from divisions during World War II, Tito built the city of Pristina, including an Albanian university. In 1981, in response to increasingly strident demands for Albanian nationalism, Macedonian and Serbian authorities became more repressive. Albanian language instruction in the Skopje University was stopped in 1985 because of fears of Albanian separatism. Following extended rioting by the students, in 1991 Slobodan Milosovic closed the Pristina university and revoked Kosovo's autonomy. A 'parallel' university has continued to exist in Pristina in opposition to the Serbian authorities. At the end of March, 1998, an agreement re-opened Serbian Universities to Albanians.

In 1989, the republican constitution of Macedonia was amended. Macedonia was declared a 'nation-state' of the ethnic Macedonians, and previous references to Albanian and Turkish minorities was removed⁸. With independence in 1991 a new constitution (see below) was written that emphasized Macedonian language and culture over that of Albanians and other minorities. In October, 1992, a new citizenship law stipulated a 15 year residency period, which disqualified many Albanians for citizenship. After the closure of the University of Pristina, in 1994, Albanian majority municipalities took up a collection to establish an Albanian language university in Tetovo, whose first building was destroyed in a Macedonian police action which killed one and wounded dozens of others. The university re-opened in Tetovo, and while tolerated, is still regarded as illegal by the Macedonian government, and neither its course-work nor its degrees are recognized. Currently it reports an enrollment of some 4,000 students, and is largely financed by remittances from Albanians living abroad.

To ease these tensions, the Government of Macedonia established a 10% quota system for minorities at the state universities, and increased this to 23% for 1996-7⁹. Following ten years of strictly Macedonian language education at the University of Sts. Cyril and Methodius, Skopje, in January, 1997, parliament passed a law providing for an Albanian language university education within the pedagogical faculty to provide teachers for Albanian primary and secondary education. This move was resisted by high school and university students with demonstrations in the center of Skopje, arguing that they were 'defending the constitution'. Parts of this demonstration were extremely ugly, including posters demanding 'gas chambers for Albanians'.

Another point that has become very problematic in the last few years concerns the flying the flag. Under Yugoslavia, minority flags could be flown at municipal buildings as long as the Yugoslav flag and that of the respective republic was also flown. After local elections in 1996, several Albanian majority municipalities voted to raise the Albanian flag at municipal buildings alongside the Macedonian flag. Legal action by ethnic Macedonians resulted in constitutional court orders to remove the flags in Gostivar and Tetovo. In July, 1997, parliament passed a law allowing the Albanian flag to be flown on state holidays only. When this law was enforced, riots resulted, leaving three dead. The mayors of the two cities were arrested, convicted and were awaiting incarceration in late March, 1998.

The Serbian police actions in Kosovo in March, 1998, added to these tensions. There was a large Albanian demonstration in Skopje, which generally passed peacefully, although there were some scuffles, the Macedonian flag was trampled by the crowd (not the organizers) and a Serbian flag was burned. Most of the speeches were made in Albanian, although at one point during the demonstration one of the speakers used Macedonian, and was roundly booed by the crowd. The sight of a sea of Albanian flags, the sound of the Albanian language, and booing the use of Macedonian in the streets of Skopje was profoundly disturbing to many Macedonians.

The most recent parliamentary elections were held in 1994. At that time, the SDSM, a party based primarily in the previous communist regime, won a majority of 62 seats in the 120 seat assembly. It formed a governing coalition with the Albanian PDP and a smaller party. There are five Albanian ministers, although they are either without portfolio or hold relatively unimportant ministries. The next elections are scheduled for the end of 1998. Because of increasing tensions, both the nationalistic Macedonian party VMRO and the nationalistic Albanian party PDA are expected to make significant gains. A third party, Democratic Alternatives, has recently been announced by a popular politician from the Yugoslav era that has the intent to include all ethnic groups, and many hope this will provide an answer to the rising political and ethnic tensions.

Legal and Constitutional Framework:

One of the key issues between ethnic groups has to do with rights established under the constitution. The tension as to whether Macedonia should be a mono- or multi-ethnic state begins in the preamble:

Taking as the points of departure the historical, cultural, spiritual and statehood heritage of the Macedonian people and their struggle over centuries for national and social freedom as well as for the creation of their own state, ... Macedonia is established as a national state of the Macedonian people, in which full equality as citizens and permanent co-existence with the Macedonian people is provided for Albanians, Turks, Vlachs, Romanics and other nationalities living in the Republic of Macedonia ... ¹⁰

Further articles attempt to maintain the tension between Macedonia as a state for Macedonians while providing rights to other 'nationalities':

Article 7: The Macedonian language, written using its Cyrillic alphabet, is the official language in the Republic of Macedonia. In the units of local self-government where the majority of the inhabitants belong to a nationality, in addition to the Macedonian language and Cyrillic alphabet, their language and alphabet are also in official use, in a manner determined by law.

Article 48: Members of nationalities have a right freely to express, foster and develop their identity and national attributes.

The Republic guarantees the protection of the ethnic, cultural, linguistic and religious identity of the nationalities

Members of the nationalities have the right to establish institutions for culture and art, as well as scholarly and other associations for the expression, fostering and development of their identity.

Members of the nationalities have the right to instruction in their language in primary and secondary education, as determined by law. In schools where education is carried out in the language of a nationality, the Macedonian language is also studied.

One of the problematic issues is the phrase at the conclusion of Article 7 (and found widely in the constitution) 'in a manner determined by law'. In effect, this has made the interpretation of the constitution subject to the laws of the country, rather than vice versa. This situation has led the way for a variety of courts, including the constitutional court, to rule that the Macedonian is the sole language to be used in many public spheres, including, at one time, the University of Sts. Cyril and Methodius, Skopje.

The importance of the subjugation of the constitution to laws is shown in a survey, conducted in 1993. At that time, three quarters of Macedonians felt that Macedonian should be the only official language, rejecting the constitutional compromise¹¹.

What has developed over the intervening time is that most people surveyed (see below) thought that the constitution provided for Macedonian to be the only official language for Macedonia, with some allowances made for education through twelfth grade. The language issues, often framed in terms of "defending the constitution" has become one of the flash points in Macedonian society.

An important issue that is not immediately apparent is the use of the word 'nationality'. This is a term taken from Yugoslav law, in which a 'nationality' *means* an ethnic group. Thus, at least in common use, Albanian nationals may be Macedonian citizens, but *cannot* become Macedonian *nationality* without abandoning their language and cultural identity.

Research Methodology and a Personal Note:

Given the severe time constraints of two weeks to gather information and prepare a report, no in-depth research could be conducted. What is reported here is what was gathered from a variety of largely expatriate experts, as well as individual interviews and focus groups with Macedonians, Albanians and one Turk (see contact list). About half the interviews were conducted in English, and half in either Macedonian or Albanian using a translator. The interviews were semi-structured in that I had a list of topics that I wished to discuss, but allowed the conversation to develop naturally rather than forcing it into the structure of a formal question and answer session.

Of necessity, individuals who were interviewed or participated in focus groups were largely selected on the basis of their availability, on their knowing one or another of my contacts. I endeavored ensure balance between Macedonians and Albanians, and traveled outside Skopje to Gostivar, Tetovo and Radoviš to ensure that I was not merely getting the view from the capital.

Interestingly, I was unable to locate Macedonian 'experts' who could separate themselves sufficiently from the issues to give both sides of an issue. Most were so passionately involved with the subject that the discussion rapidly became more and more animated as participants mobilized more 'facts' that supported their views. Indeed, this was probably the most characteristic aspect of my interviews. With only two exceptions, people were unable to step back from their positions to see a way of mediating a conflict. I was most impressed with this in my Radoviš focus group, where, with two lawyers participating, they could not fathom an analogy comparing the process of resolving a village dispute between two feuding families with seeking resolution of the current situation between Macedonians and Albanians.

Several of the people I talked to made this point. As one said, "In the Balkan peninsula, you can never agree to be different. Every conversation where there are differences never ends with a solution." I certainly experienced this, particularly as I failed to support the speaker's view of the situation, and even more so as I sought to seek a less demanding way to resolve the issues. I never attempted to get someone on one side of the issue to see the other side!

In many situations I was reminded of discussions that went on during the United States' civil rights turmoil of the seventies: 'they are less intelligent', 'they are lazy', 'they are responsible for all the crime'. More seriously, at times the hatred so vividly expressed reminded me of my conversations in Burundi in a time of genocide (1994). This has serious implications for the future of Macedonia, particularly since, by all accounts, tensions have increased over the past four years. Nonetheless, as described below, many people are very hopeful that the tensions will be resolved without a descent into chaos.

What is reported below are statements that were repeated by more than one person. Conversations I had were remarkably similar, and the statements made in Skopje were repeated in Tetovo and Radoviš.

The Macedonian Point of View

The primary Macedonian viewpoint is that Macedonia is for Macedonians, and that others must learn their place if they wish to live there. One of the reasons why there are difficulties with the Albanians, but not with other ethnic groups is that the others are seen as not making excessive demands to be different from Macedonians. The Turks, Serbs, Vlach and Roma have simply too few numbers to influence the situation. Albanians, with their demands for their own language, their own flag, their own university, are seen as a threat as they continue to refuse to become Macedonian.

Macedonians see themselves as inhabiting their own 'motherland'. All the other 'nationalities' have their own motherlands--Serbia, Albania, Greece--but Macedonia is the only land they have, and they will be orphaned if it is allowed to become a multi-ethnic state. Because of their origins, Macedonians are having difficulties developing a national identity--Clearly, Alexander Makedonski (Alexander the Great) is a culture hero, as are the ninth century Sts. Cyril and Methodius, who translated the Bible into Slavic, inventing a predecessor of the Cyrillic alphabet in the process. Tsar Samuil, who ruled greater Macedonia and western Bulgaria from the Lake Ohrid region around the year 1000 is important. More recently, Gotse Delchev started a rebellion against the Turks in 1903, but none of these can be specifically identified as 'Macedonian', and are also counted as being Bulgarian or Greek. I never heard mention of Mother Theresa, an Albanian born in Skopje.

The process of developing a cultural identity is long and complicated. While not necessary, it is helpful to have a language, a geographic area, a flag to identify one's self. Macedonians have these, but they have not had them for long, and they are having difficulty developing a distinguishing history that will set them apart from the nations around them. A feeling of inferiority seems to be a Balkan trait--the Serbs celebrate their defeat at the hands of the Turks in 1389¹² as one of their defining moments--and Macedonians still feel disadvantaged even in their own country: A 1993 survey shows that more than half of Macedonians feel that they are economically worse off than other ethnic groups¹³.

Certainly the external political environment is seen as having done great damage to Macedonia. For the first five years, they were strangled by the embargo against Serbia to the north in retaliation for the Bosnian war, and by the embargo by Greece to the south, who objected to its name. Since roads--and diplomatic relations--with Albania to the west and Bulgaria to the east were not in good repair, the country feels it lost hundreds of millions of dollars as a result of these blockades. In such a situation, it is easy to feel trapped by circumstances beyond one's control, despite the fact that current economists doubt that there was any impact at all.

From a political point of view, many feel that the ruling SDSM party was forced into a coalition with the Albanians because it did not have an electoral majority¹⁴, and therefore is granting far too many benefits to the Albanians: Five Ministerial portfolios, 23% quotas in the University, hiring quotas for government jobs, and so on. Because it is seen as being 'easy on

Albanians', the SDSM is expected to lose a significant number of parliamentary seats to the more nationalistic VMRO in the fall elections.

One of the major moves this government has made is redistricting the original 31 municipalities inherited from the Yugoslavs into 123 municipalities (plus seven for Skopje) in an effort to decentralize. Rather than see the benefits of local government for themselves, most Macedonians I talked to viewed decentralization as a means to funnel resources directly to Albanian municipalities to allow them to secede.

As a group, Macedonians view Albanians--as a group--as criminals, a threat to their very existence. Despite this, every Macedonian I talked to told me of an Albanian acquaintance that 'isn't like that, but is a good person'. As a group, Albanians are accused of being responsible for all the drugs, prostitution and crime, both in Macedonia and in Western Europe. Albanians are blamed for Macedonian difficulties in getting visas to the West: "They've stereotyped Macedonia as a drug trafficking country, and now we can't go to Germany to get jobs." Albanians are seen as using their illicit gains to buy land and houses away from the Macedonians. Despite this, Albanians are also seen as being less intelligent, and constitutionally incapable of holding a professorship in medicine, for example. Albanians are seen as having a high birth rate, which will result in Macedonians being outnumbered in their own country in short order.

By their refusal to accept the Macedonian language, by their refusal to accept the Macedonian flag, by their demand to have a separate university, by the sometimes spoken, sometimes implicit threat to secede, Albanians are seen as a threat to the Macedonian motherland, to Macedonian identity--as a mortal threat to Macedonian's right to their own life in their own way in their own place.

The Albanian Point of View

Most of the specific incidents that color Albanians' attitude towards Macedonia were given in the section on 'recent history', above. In short, Albanians feel that they are being denied rights that they had as a 'constituent nationality' under Yugoslavia, and are concerned as to how far this erosion of rights will continue. Albanians feel that they are discriminated against, beginning with the preamble to the constitution, and continuing through language, education and employment opportunity. They feel they are denied basic human rights. They feel they make up 40% of the population of Macedonia, not the mere quarter that the census calculates, and that they should have proportionate recognition. They feel that the fifteen year residence requirement--which only begins to run when the person registers as a resident--is specifically aimed at preventing Albanians from exercising their rights as citizens. They feel that they are being denied educational opportunity, first in the very few Albanians being admitted to the University, and secondly in that the University of Tetova¹⁵ is regarded as illegal and its degrees and classes worthless. Even degrees from the University of Pristina are not acceptable in Macedonia.

While at one time there was a strong Albanian separatist movement, since the collapse of the Albanian economy in 1997, most Albanians feel that they have a better life in Macedonia, and don't want to secede and rejoin Albania. However, they feel very threatened by majority groups, particularly in light of Serbian violence against Albanians in Kosovo. There is a strong perception that Macedonians control the state, including the courts, so that the state itself has become party to the conflict.

Politically, Albanians have been part of the ruling coalition since 1994. However, most Albanians do not see this as having brought them benefits, and view the moderate party as being the 'lapdogs' of the ruling party. Albanian politics has become radicalized over the past four years, and the radical Albanian party is expected to do much better this time than its moderate parent.

Albanians see the Macedonians as wanting them to give up core parts of their culture and identity, and view themselves as being increasingly embattled. While there have been few violent incidents to date, with the exception of the protracted issue of flying the Albanian flag over municipal buildings, the leaders of the radical party wanted me to know that their youth were becoming 'hopeless', and increasingly uncontrollable. If they do not see a change soon, they said, they will have to fight for their rights, and the party leaders will support them¹⁶.

Reasons for Hope:

A resolution requires that grievances be transcended to achieve a lasting solution. Fortunately, there seems to be some time to address the problems. Skopje--at least on the surface--is a peaceful city. There is relatively little crime, and people talk and laugh with the policemen--a far cry from so many places. Even the serious confrontations listed above were generally managed with restraint on both sides. I have heard no reports of individual ethnic violence--people being lynched, or their houses being burned because they were from the wrong ethnic group. All people interviewed said that they personally knew of people from the other ethnic group that they liked and did business with. There is a basis for hope that all Macedonian citizens--Macedonian and Albanian alike--can resolve their differences.

Both the government and the opposition Albanian parties seem to be acting with restraint. In particular, the government only intervened in the issue of the Albanian flag very slowly and following a series of court decisions. While there was an eruption of violence after the final decision was announced, this was quickly stopped by both sides. Similarly, during the recent demonstrations in support of Albanians in Kosovo, the event passed with only a few fisticuffs, and riot police were neither in action nor in evidence. I believe that, despite hot tempers, both sides realize that both will lose if the situation degenerates into violence.

Unfortunately, there also does not appear to be any electoral benefit to a moderate position. Moderate parties elected in the past are expected to lose ground in the next election to more radical ones.

All my interviewees stated that they had no objection to particular individuals of the other group, indeed that some of their closest friends and business partners were from that group. It was simply the ethnicity as a whole that were bad. While less than a ringing endorsement, this does offer opportunities to develop programs that, in the long run, can make a difference.

For the last two years, **Land O' Lakes**¹⁷ has sent inter-ethnic teams of veterinarian field agents into villages to help improve livestock and dairy products. Their teams cover an impressive number of villages out of four regional centers. Since they only send out inter-ethnic teams, their experience is instructive. There have been very few incidents where teams have been rejected. In one case near Skopje, an entire village came to the Macedonian member following the initial lecture and requested that the Albanian team member not return to teach. With country coordinator backing, they both returned on the next trip, and explained his educational qualifications. After careful questioning, he was accepted, and the team has continued to work there up to the present. Interestingly, this area is said to be very ethnically confused, with people not sure whether they're Serbs or Macedonians.

In other incidents in Albanian villages, people have stood up to demand that the lecture be given in the local language. The rest of the listeners have demanded that the talk continue, since they aren't involved in politics. Generally, the rural people have been suspicious of the motives of educated city folk coming to their village, since usually only politicians come seeking votes. Once personal contact is established, and particularly after their advice is seen to be useful, there are no further problems. This project is an important example how using common goals can be used to reduce ethnic tensions and establish personal relationships.

A collaborative project between **Search for Common Ground/Washington** (SCG), and the Skopje University based **Ethnic Conflict Resolution Project** (ECRP) has been working in schools to teach fourth grade students 'conflict-resolution games'. These 'games' consist of weekly classroom sessions in which children are taught skills to prevent escalation of conflict into violence. Unfortunately, there are only two schools participating currently, and they will only be able to expand to four schools next year, meaning that this will be very slow in showing results on a broad scale. Unfortunately, when ECRP attempted to develop a university course on conflict resolution, they were not permitted to do so.

SCG and ECRP are also working on a variety of journalistic projects encouraging collaboration and unbiased reporting. SCG has also recently been awarded a grant to produce a television series aimed at older elementary students, again teaching ethnic tolerance and conflict resolution skills.

Delphi International's project, Strategies, Training and Advocacy for Reconciliation (STAR) works with non-nationalistic women's NGOs to increase their capacity to advocate women's issues--including public education, raising public consciousness and lobbying local and national government bodies. An important part of this is to help women understand that their issues transcend ethnicity. A particular aspect of the work involves workshops with representatives from most of the former Yugoslav countries¹⁸ to be able to see their

differences in a regional light. A meeting with regional representatives of NGOs from the three largest ethnic groups in Macedonia shows the possibilities. Their local workshops on issues concerning women--such as public health, drugs and AIDS--are always held with interpretation into both languages, which shows respect and acceptance of both sides. It gives the opportunity for women to develop friendships across ethnic boundaries, which otherwise would be very difficult. In almost all workshops, some sort of ethnic conflict arises. When this happens, the local coordinators--both Macedonian and Albanian--are prepared to jointly intervene and resolve the issue. The attention to non-violent communication provides an important forum in an environment where normal communications are aggressive, and people have rarely learned how to listen to each other. The ostensible topic of the meeting is usually far less important than the opportunity provided for a new kind of interaction.

Lessons from Experience in Post-conflict Situations:

Conflict is an inevitable part of life. Indeed, the more a situation changes, the more likely conflict is to arise. All cultures and organizations develop means to deal with conflict in more or less effective ways. With the vast changes of the past decade--a shift from being part of a larger whole to being an independent state, a shift from communism to democracy, a shift from a centrally directed economy to a market economy--it's surprising that there is as little overt conflict as Macedonia currently experiences. This is particularly true since the two major ethnic communities have primarily existed in parallel rather than together, and are very much in the process of developing conflict resolution mechanisms as a pluralistic nation.

The Carnegie Commission has recently issued a report, *Preventing Deadly Conflict*, that summarizes world experience in identifying, preventing, and recovering from conflict situations¹⁹. They comment:

While disputes between groups are common, the escalation of these disputes into lethal violence cannot be explained merely by reference to sectarian, ethnic or cultural background. Indeed, in the Commission's view, mass violence is never "inevitable." Violent conflict is not simply a tragic flaw in the cultural inheritance and history of certain groups.

Violent conflict results from choice--the choice of leaders and people--and is facilitated through the institutions that bind them. To say that violent clashes will inevitably occur and can only be managed, a view implicit in much of the contemporary literature on mediation and conflict resolution, will not do. The factors that lead to the choice to pursue violence are numerous and complex²⁰. ... In the Commission's view, mass violence almost invariably results from the deliberately violent responses of determined leaders and their groups to a wide range of social, economic, and political conditions that provide the environment for violent conflict, but do not independently spawn violence. The interplay of these predisposing conditions and violence-prone leadership offers opportunities for prevention.²¹

Looking at cases where mass violence might have been expected, the Commission identified three factors that seem to forestall violence:

- *Leadership:* Leaders on both sides of the conflict must be committed to a peaceful resolution of the issues, and to seeking early mediation as problems move towards violence. As has been shown above, both the actions and the rhetoric of the Government of Macedonia have been for peaceful resolution, but the Albanian PDA, while its actions to date have been peaceful, want international observers to know that it is prepared to take action. While I have not discussed issues at a high level, I believe that Albanians are more willing to enter into international mediation than are Macedonians.
- *Social Cohesion:* This is defined as 'a robust civil society that offers a vibrant atmosphere for citizen interaction, or in accepted patterns of civil behavior able to absorb the shocks of rapid change'²². Clearly, given the 'parallel' cultures described above, Macedonia does not have a sufficiently strong cohesion to avoid difficulties. The primary elements of civil society that contribute to the prevention of violence are the NGOs, religious leaders and organizations, educational and scientific communities, and the media. Unfortunately, two of these, the religious and the educational and scientific communities divide rather than unite across ethnic boundaries. There is a basis for the development of a more resilient environment in business relationships, and in nascent NGO activities such as those of Land O' Lakes and Delphi, but much more effort needs to go into strengthening these relationships.
- *International Engagement:* The international community has made a strong commitment to protecting Macedonia from violence in Kosovo and Serbia by the deployment of the UN Preventive Deployment Force (UNPREDEP) from 1992 to the present. While its purpose is primarily to prevent the spread of outside violence, it stands as a clear signal that the international community is concerned about what happens within Macedonia. There is, however, no cause for complacency. The international community must remain aware of developments within Macedonia to ensure that they are prepared for appropriate preventive diplomacy should the need arise.

Policy: Ethnic Tensions as a Cross-Cutting Issue for USAID/Macedonia:

From the discussion above, a Westerner would find it easy to side with Albanians. Unfortunately, this is probably not the right response. While couched in different terms--the Macedonians in rejecting Albanian Nationality, the Albanians in protecting human rights--in fact, both sides want the same thing, i.e., an uncontested right to full national expression. Unfortunately, neither see that it is possible to achieve this while sharing a common piece of land, and both believe that making any concessions to the other is tantamount to losing

everything. Unfortunately, as has been seen in many other situations, the personal level of tolerance can be quickly swept away if national level outrage leads to mass violence. This was seen most vividly perhaps in Rwanda.

Furthermore, the tension is not concentrated at a single level--i.e., rural/urban, high/low educational status, one region vs. another. Approaches will ultimately have to address all levels at the same time. If, for example, Land O' Lakes is working in rural areas, and National Democratic Initiatives is working at the central political level, mid level authorities may see their own positions being eroded and may work to sabotage any effort to achieve reconciliation.

As I view the findings of my work here, I feel that there are several things that will affect ethnic tensions in Macedonia in the short, medium and long term. In the short term, I feel that the most important issues are:

A. Events in Kosovo: If tensions there settle down, and there is no further violence, tensions will lessen on this side of the border as well. If, however, there is escalating violence, particularly if it is accompanied by a surge of refugees into Macedonia, I feel the situation will deteriorate rapidly here.

B. Parliamentary elections in the fall of 1998: Currently, parties on both sides find it difficult to differentiate themselves from their opponents except on the bases of the personality of their leaders, and the extent to which they fan ethnic tensions. If these leaders refrain from escalating their rhetoric during the elections, there is a greater likelihood that the situation here will remain stable. However, election results are important, as well. It is important that Albanians feel that they have a significant role in the new government, and probably need to be represented in the ruling coalition. If a coalition of Macedonian nationalistic parties is formed excluding Albanians, I feel that the situation will become less stable.

In the intermediate term, the economic situation must improve, with equal access to economic benefits for both Albanians and Macedonians. The impact of increased local participation in governance is unclear to me at this point. If NGOs use increasing influence to make central and local government responsive to individual concerns, this will help reduce tensions. On the other hand, if decentralization continues to be one of the flashpoints for Macedonians, it could serve as a destabilizing influence.

Long term stability will depend on a growing recognition of the needs and contributions of both Macedonians and Albanians to the Macedonian state. Increasing business and social contacts between the groups, and teaching effective ethnic tolerance and conflict resolution through business, NGOs, the Media and the schools will play a major role.

Based on these conclusions and the presentation above, I feel that the USAID strategic plan should address the following cross-cutting elements.

1. Work with political parties to help them establish economic and social platforms and to help them establish constituent communication and services, thus weaning them from 'big man' and ethnic tension campaigns.
2. Follow the laws leading up to this fall's elections very closely, including the electoral districting laws. The mission should consider having one of its elections cooperating agencies do an analysis of the body of these laws to estimate how Albanians and Macedonians will fare under the scenarios that are established. This can be used to predict any difficulties that might arise during the campaign, elections, or formation of a government following elections, and may be useful as an early warning system for increasing tensions.
3. Continue with a major focus on economic development. Ensure that all ED projects are developed to (1) increase inter-ethnic contact, (2) ensure that project managers are aware that conflict will occur in these settings, and (3) include mechanisms to deal with the conflict when it arises. The mission will also wish to carefully monitor access to economic benefits, to ensure that the perception of fairness across ethnic boundaries is maintained.
4. Establish teams of trained Macedonian/Albanian mediators who can be used to intervene in conflict situations. The basic concept would be that leaders, preferably those respected by both sides, would be trained to work together to help resolve tense situations both in the private and public sector. Hopefully, they could gain regional stature by being participants on international mediation teams, but this would take time and experience. Ultimately, these teams should be capable of providing mediation services at the highest level. This can probably best be accomplished through some of the NGOs currently active in Macedonia.
5. Use NGO and other contacts to informally monitor the situation, to ensure that the mission is aware of impending violence.
6. Continue NGO funding for ethnic tolerance, conflict resolution, impartial journalism, media programs, local NGO strengthening and NGO political involvement.
7. Given the current tension between ethnic groups and the cultural difficulties in resolving differences through meetings, the mission will probably not wish to sponsor workshops that directly address ethnic differences. Unless conditions are right, this type of workshop has not been shown to be particularly effective. Following the elections, the Mission may wish to reevaluate the situation to determine whether Establishment of trained teams of mediators to intervene in specific situations, as described above, will probably be more effective.
8. The Mission will want to monitor involvement in decentralization very carefully. If it is done to strengthen municipality management, this will probably cause no problems

and will directly address the concerns of the mid-level elite. Becoming involved in decentralization at a policy level will probably result in the Mission being seen as being pro-Albanian.

Annex: Results: Measuring Program Impact:

At a time when USAID is focussed on achieving 'results' from every activity, preferably on an annual basis, it is difficult to select verifiable results for issues in reducing ethnic tension. The goal is something that does not happen--violence--and, while it is easy to recognize failure, it is more difficult to measure success.

In these situations it is tempting to substitute something that is apparently easier to measure--an example given was that if a women's group started doing work on breast cancer, one should track whether the prevalence of breast cancer was changed as a result. In the first place, such a measure does not take into account the epidemiology of the disease--teaching self examination will increase the prevalence as undetected cases are found--but also the potential impact of a relatively small investment--it is unlikely that even intensive work among a few thousand women will have a measurable impact over a short time period.

In these cases, it is very important to look at what the organization is actually doing, and to choose results based on what is actually done. If an organization is holding inter-ethnic meetings and workshops, the number of participants or the number of people trained in conflict resolution *may be the desired result* in and of itself.

In different situations this will be different: Land O' Lakes will probably have an easier time developing indicators than Search for Common Ground, particularly in its television series. In the latter case, the best indicator would be market share, but I don't know whether this type of survey exists in Macedonia--and it would almost certainly not be cost effective to establish a viewing pattern survey simply to measure viewers of this series! Second might be viewer response, measured by letters or telephone calls. Finally, the mere accomplishment of completing the series might be the only result that can be tracked.

Endnotes:

1. The term 'Macedonian' can be confusing. It can refer to a citizen of Macedonia, a member of the Macedonian ethnic group, or the Macedonian language. Unless the context is clear, in this paper I will use the term to refer to members of the ethnic group, and *not* to citizens of the state.
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10. Constitution of the Republic of Macedonia, Skopje, 1991. English version.
11. Najcevska, Mirjana and Natasha Gaber. Survey results and Legal Background Regarding Ethnic Issues in the Republic of Macedonia. Institute for Sociological, Political and Legal Research, Center for Ethnic Relations. Skopje, October, 1995.
12. As noted above, the party has a slender majority, and could govern without a coalition. The party apparently wishes to present this face, both to Macedonians and Albanians, as needing the coalition, and therefore being responsive to demands from both sides. Unfortunately, currently this is seen by both sides as 'giving in' to the other's demands, and is expected to weaken both in the next election.

In addition, there is a question as to how significant the Albanian membership is to the coalition. Apparently, when a decision was made to enforce the ban on flying the Albanian flag over public buildings in Gostivar and Tetovo, the Albanian party was not aware of it, and was taken by surprise by the police action.
13. Najcevska & Gaber, *op. cit.* p. 37. The exact percentage is not given, but Macedonians are put between the 75% of Albanians and 52% of Serbs that feel themselves relatively disadvantaged.

14. One of the fascinating pieces of lost history is that, contrary to tradition, the Serbs battled the Turks to a standstill, and the Turkish conquest of Serbia was delayed for several years! This is forgotten because it does not fit with Serbian's view of themselves.
15. The spelling of Tetovo/a differs when spelled in Macedonian (Tetovo) or Albanian (Tetova). Since I am referring to an Albanian institution, I use the Albanian version here.
16. I believe this was said more for my benefit as an advisor to the U.S. Embassy, rather than because this is their next choice of action.
17. Mentioning a particular development partner in this section means that I endorse certain activities that seem to be important to reducing ethnic tensions. A full endorsement of an implementing organization would mean that I would have to look more carefully at its on the ground capabilities and results than I have been able to do thus far. Because of time limitations, I was unable to interview many of the other NGOs operating in Macedonia, and does not mean that I feel their work is of less value.
18. Excluding Slavonia
19. Carnegie Commission on Preventing Deadly Conflict. *Preventing Deadly Conflict*. Carnegie Corporation. New York. 1997
20. *ibid.*, p. 25
21. *ibid.*, p.29
22. *ibid.*, p. 30

**AN ENVIRONMENT PROGRAM
FOR
THE REPUBLIC OF MACEDONIA**

Submitted to USAID/Skopje

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I. INTRODUCTION

A. Rationale for an Environmental Program in Macedonia

Environmental problems have been shown to increasingly threaten economic and political interests in both the developed world and the developing world. At the local level, environmental degradation poses a growing threat to the physical health, as well as economic and social well-being. In Macedonia, many decades of poor environmental management have contributed significantly to air, water, and soil pollution. Air borne pollutants are the likely cause of high levels of morbidity and respiratory illnesses. Although data collection is inadequate, water pollution alone probably accounts for hundreds of cases of severe illness and sometimes death.

Unfortunately, environmental damage often is irreversible. Thus, the need for action is urgent. Early intervention is critical to preventing the extinction of a species or limiting the impact of pollution on public health. Debates over ways to save biodiversity after the forest is gone, or how to clean up a river after people have been hurt are moot. Worse, failure to act makes it more difficult to respond effectively to future environmental problems.

Workable solutions for Macedonia must focus on how citizens and their economic interests interact with the natural environment and its resources. Solutions must address how Macedonians perceive the environment and how they utilize it; how they judge the costs of using natural resources; and how political, industrial and agricultural processes either damage or protect the environment. Unfortunately, under the previous regime too many times short-term exploitation of natural resources was chosen over longer-term management. Government policies often distorted markets to encourage the exploitation of resources. Now public interventions to correct market failures and eliminate market distortions are necessary to protect the environment.

Effective public institutions that create and monitor an environment favorable to sustainable resource use are critical. This, in turn, requires active public participation in the setting of standards, monitoring and enforcement. In Macedonia, market-based approaches should be pursued wherever possible and appropriate, since solutions ultimately must make economic sense. Regulatory institutions, the policy environment, and incentives must help define what is economically rational and what is not.

USAID, and in particular ENI's Environment and Natural Resources Division, has built a steady track record of addressing the above issues across the ENI region. Past projects have focused on the abiding impairment of human health due to air, water, and soil contamination from industrial, agricultural, and household activity; unsustainable exploitation of forests, wetlands and other ecosystems that provide vital ecological services; degradation and depletion of water resources; unsustainable agricultural practices; inefficient and environmentally unsound energy production and use; inadequate management of household

and municipal wastes in growing urban areas; regulatory, statutory, enforcement, and policy issues; and social and economic patterns, including the lack of local participation and empowerment, that contribute to the aforementioned problems or impede solutions.

Through this body of experience, several lessons learned have arose that serve to reinforce the need to view environmental issues as an integral part of the ENI region's and Agency's goals to achieve **sustainable development**. The stated goals of both the ENI Bureau and the Agency include reducing the long-term threats to the global environment, particularly loss of biodiversity and global climate change; and promoting sustainable economic growth locally, nationally and regionally by addressing environmental, economic, and developmental practices that impede development and are unsustainable.

It is essential that Macedonia's economic and democratic development should include environment as an integral part of its future development because ultimately the quality of life for future generations will in no small measure be determined by the success or failure of Macedonia to effectively manage its natural resources.

B. Scope and Methodology for an Environmental Pre-assessment

Responding to a request for assistance from USAID/Skopje, a multi-disciplinary team was formed to prepare a pre-assessment of the environmental issues facing Macedonia. Technical specialties represented on the team included: policy and institutional reform; forestry and biodiversity conservation; local government and urban infrastructure; and industrial pollution/clean production.

The team's task was to: 1) identify environmental issues facing Macedonia; 2) review USAID's and other donor/IFI activities addressing these challenges; and 3) recommend what program areas could be addressed should USAID/Skopje decide to implement an environment program.

A two week tdy was completed in December, 1997 which involved team members interviewing representatives from USAID, Central and local governments, businesses, NGOs, academia and other knowledgeable sources. Field trips were made to several Macedonian cities during the two week visit. (See Annex for detailed contact list and meeting notes.) The team's visit culminated in debriefings for USAID/Skopje and the US Ambassador to Macedonia.

The following is a report on the team's findings as well as suggested programs to address environmental needs identified. The team wishes to stress that should USAID/Skopje decide to implement an environment program, this report serves to provide a very useful foundation upon which a full-blown assessment would likely be needed to further refine the scope, timing and budget of the recommendations offered.

C. The Macedonian Environment and National Priorities

The Republic of Macedonia, like other Central and Eastern European countries in transition, has started the process of reform towards a market economy. As part of the economic development program, Macedonia is in the process of shaping its environmental policies and identifying priority actions to protect human health and the environment and to utilize its natural resources in a sustainable manner. These policies and actions are consistent with the "Environmental Action Programme for Central and Eastern Europe (EAP)" document adopted at the Ministerial Conference in Lucerne in 1993.

In attempting to meet its goals towards protecting the environment, the Government of Macedonia (GOM) has prepared an "National Environmental Action Plan (NEAP)" which seeks to outline a strategy that:

- protects human health;
- improves the environment to enhance quality of life; and
- conserves natural resources for sustainable development.

The following is a synthesis of the findings of the NEAP completed a year ago. The synthesis provides a backdrop for the team's findings and recommendations for future environmental activities.

Country Background

Macedonia has about 2 million people of which approximately 60% live in urban areas. Industry is the dominant sector accounting for about 35% of the Gross Social Product (GSP) and 39% of employment in 1994. Integration of environmental planning into new development activities has only been partial, although there have been some noticeable environmental improvement since independence. For example, collector systems for the wastewater treatment plants near the countries's largest three lakes have been built; conservation areas have been identified; a physical plan for the state has been adopted; and a Ministry which includes environment as a focal area has been formed.

In spite of these accomplishments, environmental programs so far have been modest and there is a need for an effective environmental management system through implementation of regulations and strengthening of institutions. Although production levels are lower, industries continue to be major polluters. Old inefficient production technologies, inadequate waste control equipment, and weak environmental enforcement are the primary causes for industrial pollution. Some of the crucial environmental issues in the country are poor air quality, especially in Veles and Skopje, polluted surface water due to discharge of untreated wastewater, and inadequate solid and hazardous waste management systems.

As a first step towards addressing environmental issues, the GOM passed a framework environmental law in December 1996. Under this law, other regulations have to be developed

since the existing regulations, inherited from the former Republic of Yugoslavia, are mostly considered to be unrealistic and therefore not strictly enforced. Also, it is the policy of the GOM to adopt EU environmental standards while developing new regulations.

A number of institutions are responsible for environmental monitoring. However, coordination between these agencies is poor. Also, not all parameters typically used to index pollution are measured due to lack of resources, unavailability of chemicals for analysis, and obsolete equipment. The cause-effect relationship between health and pollution is not clearly documented, except for a few urban areas. Although a number of NGOs exist, environmental monitoring data are not widely distributed. As a result, public awareness on environmental issues is still lacking.

Expenditures from the budget on environment were around 0.2% in 1996 and have not increased. Thus, enforcement activities coupled with economic incentives should be implemented to motivate polluters to prevent damaging and/or clean up of the environment.

NEAP Priority Actions

Based on an evaluation of all the environmental priorities in preparation of the NEAP, the following were considered priority actions that should be addressed within the next five years.

1. Air quality improvement
2. Water quality improvement
3. Solid waste management
4. Biodiversity conservation
5. Renewal and preservation of forests

These priority actions were based on environmental needs in the short-to-medium term, while keeping in mind the severe budgetary constraints and the need for further development of environmental institutions.

In addition to the priority list above, NEAP authors stated the need for further technical assistance in the following areas:

1. Strengthening the Ministry of Urban Planning, Construction, and Environment and other environmental institutions through a professional development program, staff training, and upgrading monitoring and laboratory equipment.
2. Reorganizing agricultural training centers on less use of fertilizers, land preservation methods, and current agronomic practices; and
3. Training on natural resources management, including water, land, forests, protected areas and national parks.

What emerged from reviewing the NEAP and interviews the team conducted before, during and after the tdy is the need for USAID/Skopje to focus on the following three areas:

- **Biodiversity Conservation, Park Management and Forestry;**
- **Urban Industrial and Policy Issues, and**
- **Urban Finance and Local Governance.**

To systematically addresses the above areas, a common reporting format was agreed to in order to facilitate subsequent program decisionmaking by USAID/Skopje. The format includes the following subject headings for each focal area:

- Background which includes a statement and description of the problems
- Constraints and priorities
- Other donor/IFI activities
- Recommendations

It should be noted that the team felt strongly that although activities might be further described and prioritized within each of the three focal areas, prioritization among the three could not be done within the time limit allowed to collect the information. Therefore the recommendations made in the following sections are based on a preliminary assessment of what could be done to achieve a demonstrable impact within the confines of a limited budget and time period from now until USAID closeout.

II. FOCAL AREAS

A. Biodiversity Conservation, Park Management and Forestry

This section outlines constraints and opportunities in the management of living renewable natural resources, which are often referred to as "green" environmental issues. The greatest opportunities for USAID/Macedonia currently relate to biodiversity conservation, park management, and new partnerships between national ministries, municipal governments, and civil society in the governance of protected areas. These are discussed jointly below.

Macedonia is a particularly forested country, by regional standards, and forests are both an important source of products, employment, and environmental services (such as soil conservation). Additional opportunities for USAID/Macedonia support of improved forestry are discussed separately beginning on page 13.

Biodiversity Conservation and Park Management

i. Background

Macedonia's topography, location, and history all contribute to its rich biodiversity. Its mountainous topography, ranging from 100 m to 2,764 m above sea level, provides a great diversity of climatic zones. Fifteen mountain ranges are higher than 2,000 m, which over evolutionary time has also produced geographic barriers that favor the development of a diversity of life. Two of Macedonia's large natural lakes (Ohrid and Prespa) are very old and isolated, slowly accumulating freshwater species, some of which are endemic. These and other lakes also support large populations of resident and migratory birds, including several which are endangered.

Macedonia location, sitting at the intersection of three great biogeographic and climatic zones, also contributes to its richness by mixing mediterranean, continental, and mountainous species. This mixing makes Macedonia rich biologically, despite its small size. Over 3,500 species of vascular plants and 330 species of birds have been identified.

Macedonia is rich because of its human history. Macedonia's natural resources are in relatively good condition, compared to Macedonia's neighbors, and the forests that cover nearly 40% of the country are regenerating. While the area of old growth forest is likely to be small, natural regeneration and human reforestation have favored native forests and the species that live in them. Biodiversity is therefore conserved over many of Macedonia's landscapes. Macedonia still has opportunities to sustainably manage its forests, lakes, and biological diversity.

USAID enters at a critical time for natural resources management in Macedonia. Currently the country is in a tremendous state of flux, as a new policy and institutional framework is being developed to make the transition from the Former Yugoslavia to a functioning independent nation consistent with EU standards. Decisions taken over the next few years will determine the future course of park and forest management in this country, particularly the management (and possible privatization) of public lands, the relationship between national and municipal governments, and the relationship between all levels of government and civil society (including non-governmental organizations).

Protected Area Category	Number of Units	Area (ha)	Percentage of Total Land Area
National Parks	3 (4th is proposed)	108,338	4.21
Areas with Special Natural Features	3	2,338	0.09
Areas for Individual Plant and Animal Species Outside National Reserves	14	2,709	0.10
National Monuments	48	56,850	2.22
Total	69	170,235	6.62

Table 1: Macedonia's Protected Areas

Protected Area Management. Protected areas are the backbone of most strategies to conserve biodiversity, and Macedonia has a variety of these (see Table 1). Most of the protected areas are extremely small, with the current or proposed national parks forming the main exception. Macedonia has three national parks (Pelister, Galichica, and Mavrovo) which total 108,338 hectares, or 4% of the national territory. The Government is currently in the process of creating a fourth national park, Šar planina, near Serbia. This park may be very significant both because of its size (51,858 ha) and because it is contiguous with a park on the Serbian side of the border.

ii. Constraints and Priorities

Key constraints to biodiversity conservation, as outlined by the National Environmental Action Plan (NEAP), key officials, and other experts, are the following:

- (1) Lack of an adequate assessment of Macedonia's biodiversity, followed by a coherent strategy to conserve key natural resources. The country has on paper protected only 6% of

its area in protected areas, far short of the minimum of 10% recommended by most conservationists. In addition, key questions like how biodiversity will be conserved outside of strictly protected areas have not been resolved. The government lacks a clear vision of how to manage parks and how to conserve biodiversity across landscapes.

(2) Lack of an appropriate policy and administrative framework. Many Macedonian policies and administrative structures have been inherited or adapted from the old Yugoslav framework. Macedonia needs to modernize its policy and administrative framework to better address many natural resource issues, particularly the management of protected areas (which is discussed below).

(3) Inadequate on-the-ground management of existing protected areas. The current government acknowledges that the management of Macedonia's protected areas is currently inadequate to conserve their biological and social values. Under current Macedonian law, national parks are not as strictly protected as they are in many other countries, as commercial extraction of timber, firewood, and mining is permitted within national parks. In addition, unplanned activities, including illegal urbanization and firewood collection, are threatening national parks because of the absence of effective controls.

Park management faces three major inter-related challenges:

- (a) Need for an appropriate national policy framework. National parks do not receive the same amount of protection they are afforded in most countries. More needs to be done to ensure that economic activities in national parks are consistent with the conservation objectives of these areas. The Ministry of Urban Planning, Construction, and the Environment (MUCE) has developed a draft of a new national parks law. Unfortunately, in the time the team was in Macedonia it was not possible to obtain an English translation of this law.
- (b) Need for appropriate institutional arrangements. To their credit, park management authorities do have a presence in national parks, but clearly that presence is not sufficient to control all illegal activities. Park management is also complex, with some cumbersome institutional arrangement that require the active involvement of two Ministries and Parliament (see below). Macedonia needs to develop more effective institutional arrangements to conserve its national parks.
- (c) Need for technical assistance in preparing and implementing park management plans. Key areas include (but are not limited to) new mechanisms to increase public participation, self-financing and cost recovery.

Current Park Management. The current institutional arrangements for park management are complex, involving the staff of the park management authority, two ministries, the national Parliament, either the University of Skopje or the Forestry Institute, and municipalities. These relationships are summarized (to the best of our understanding) in Table 2.

In essence, national parks are managed much like forested lands elsewhere in Macedonia. Parks are managed by public companies which operate much like the public forestry enterprises, harvesting wood to pay all of their costs, including taxes to the central government. This system of park management has resulted in a presence and active management of parks, even in the absence of subsidies from the central government. But it has also resulted in the economic exploitation of the parks in ways which may not be entirely consistent with the conservation goals of a protected area.

Several observers indicated that the current system is not functioning. The zoning plan is not respected, as the boundaries between the tourist, commercial, and protected zones are not marked on the ground. Worse yet, inspectors have not been effectively enforcing provisions of the management plan. Thus, there does not appear to be adequate systems to: (a) promote public (local and national) participation of the management plans; (b) ensure that the management plans conserve biological diversity, environmental services, and other outstanding natural characteristics that national park status was conferred to protect; or (c) ensure that once developed, management plans are applied.

The table below describes the sequence of steps involved in developing and implementing the three components of park management plans, beginning at the left and moving to the right. Development of the 10 year management plans and the annual operating plans is informally coordinated with the Union of National Parks and Hunting Grounds of Macedonia. Some innovative and exciting initiatives in protected area management are underway outside of national parks. Foremost among these is the Ezerani Strict Nature Reserve which was recently established to protect a 2,080 hectare wetland on the north shore of Lake Prespa. The Reserve was created at the petition of the Bird Study and Protection Society (BSPS) of Macedonia, a USAID-supported NGO participating in the DemNet Program. BSPS had carried out a series of research projects which identified the wetlands as the areas highest conservation priority for bird conservation. After the establishment of the Reserve, the BSPS further petitioned the Government of Macedonia to formally transfer management authority to them. Remarkably, they were successful, becoming the official managers of the Reserve in November 1997. Their current challenge is to assume this responsibility (see Recommendation 3 below for a more detailed discussion of the Reserve and BSPS).

This type of institutional arrangement could be an innovative model, particularly given the severe budgetary and staff constraints within MUCE. It is also relatively rare, both in Europe and elsewhere, as governments are usually reluctant to transfer authority to NGOs, even when the government has no ability to exercise this authority. MUCE has therefore demonstrated a willingness to entertain new arrangements and relationships that contribute to the improved management of natural resources.

Current National Park Administration

Park Management Authority (PMA)		Other Key Institutions			Role of National Ministries
Program	Responsibility of Park Management Authority	Step 1	Step 2	Step 3	
Environment	Prepare a Zoning Plan which divides the park into three zones, which are dedicated to tourism, economic development, and protection. PMA sends this proposed zoning plan to Parliament for approval.	Parliament approves Zoning Plan.			None
Forestry	PMA prepares a contract with either (1) the Faculty of Forestry at the University of Skopje or (2) the Forestry Institute to prepare the forestry plan.	Either the Faculty of Forestry or the Forestry Institute prepares the Forestry Plan.	The Forestry Plan is reviewed by a commission consisting of: (1) representatives from the Macedonian Parliament; (2) representatives of the local city that has been assigned oversight responsibility; and (3) employees of the park management authority.	The plan is revised, as needed, and implemented.	Ministry of Agriculture does not approve the plan, but the Department of Forestry has an inspector to oversee implementation of the forestry component (only this component)
Wildlife Protection	PMA prepares a contract with the Faculty of Forestry at the University of Skopje to prepare the wildlife protection component of the management plan.	The Faculty of Forestry prepares the Wildlife Protection Plan.	The Wildlife Protection Plan is reviewed by a commission consisting of: (1) representatives from the Macedonian Parliament; (2) representatives of the local city that has been assigned oversight responsibility; and (3) employees of the park management authority.	The plan is revised, as needed, and implemented.	Ministry of Urban Planning, Construction, and Environment (MUCE) does not approve any element of the plan. However, MUCE does have an inspector to oversee activities in the tourism zone (and only in the tourism zone)

Table 2: Current National Park Administration.

iii. Other Donor/IFI Activities

Although it is not a protected area, there is a tremendous amount of donor activity focussed on improving the management of Lake Ohrid, a very old and biologically diverse lake threatened by unplanned development along its shores. Led by the Global Environment Facility, a coalition of donors have mounted a large program to improve the environmental management of the Lake, which is important for biodiversity conservation and local economic development, primarily because of tourism.

Bilateral and multilateral support for biodiversity conservation and park management is remarkably focussed. To the best of the team's knowledge, only one donor (the Dutch) is

considering support for any other protected area, in this case Mavrovo National Park. No donor is assisting with the development of a biodiversity strategy or the overall legal or administrative basis for protected area management. Nor is any other donor supporting any NGO to improve protected area management.

iv. Recommendations

If USAID is able to mobilize resources fairly quickly, there is a tremendous window of opportunity to help develop Macedonia's legal and administrative framework for protected area management, while simultaneously conserving one or more key areas for biodiversity. USAID may achieve greatest success by simultaneously addressing the linked needs of national policy development and immediate on-the-ground conservation of key areas. Such an approach could have up to three elements:

- (1) Development of a national biodiversity strategy
- (2) Improved national policy governing natural resource administration, particularly as it relates to forests and biodiversity;
- (3) On-the-ground conservation of key protected area(s). Choice of these areas should be based on their biological importance, the ability of on-the-ground work to inform and guide national policy development, and the likelihood of achieving demonstrable results by USAID/Macedonia's scheduled close-out date.

All three approaches are described in greater detail below. Any of the three could be implemented separately, although there will be some useful synergies if two or more are supported.

Recommendation 1: Help Macedonia develop a national biodiversity strategy

USAID's Role and Expected Results.

MUCE has developed a National Environmental Action Plan with resources from the World Bank. Production of the plan was apparently quite participatory, building consensus around the priority areas for environmental actions. While the plan provides a useful framework for environmental planning, it was not intended to be a detailed roadmap. The plan was also prepared largely in-house, without the benefit of external experts.

For these reasons, one of the priorities outlined in the NEAP is the development of a biodiversity strategy for Macedonia. A national biodiversity strategy would help the country identify geographic priorities for conservation, determine key threats and opportunities, and highlight which priority actions must be taken to conserve biodiversity. This strategy would guide the development of all the policies, implementing rules, and regulations related to

biodiversity. This is particularly important in a country where a new policy and administrative framework for natural resources management is currently being developed.

USAID's role would be to: (a) support the design and implementation of a broad-based, participatory process to develop the strategy; (b) provide technical assistance on biodiversity conservation, priority setting, policy alternatives, and related areas; and (c) assist in the final production and dissemination of the strategy.

While USAID support would lead to the production of a document, a more important result would be a consensus-building process that lays the ground work for concrete actions to conserve biodiversity. MUCE has asked for this technical assistance to ensure that their efforts to conserve biodiversity are successful and reflect the best thinking by the international community.

Justification

Developing a biodiversity strategy is: (a) a high government priority, as outlined in the NEAP and in interviews with MUCE; (b) feasible and within USAID's manageable interest (the entire process could be completed in less than one year, and mechanisms to complete this work are available); and (c) an important foundation for future decisions and investments by the Government of Macedonia, USAID, and other donors, most notably the GEF (by helping set the priorities for biodiversity conservation in Macedonia, USAID will not only ensure that our money is spent on strategic priorities, but may also be able to leverage much larger funding in the future from the GEF).

This strategy should, among other things:

(a) Evaluate the effectiveness of Macedonia's protected area system. Protected areas are the backbone of most strategies to conserve biological diversity. Macedonia has very little area in strictly protected areas (the Ezerani Nature Reserve is a rare exception), as national parks are used for commercial timber and firewood production. Therefore, USAID assistance should help the country examine Macedonia's protected overall area system to (a) evaluate its representativeness in conserving Macedonia's ecosystems, identifying any key gaps that may exist; (b) if gaps exist, to evaluate alternatives for the conservation of these areas; (c) to evaluate the feasibility of raising the percentage of area in protected areas from the current 6% to at least the 10% recommended in the World Conservation Strategy. A list of some of Macedonia's most important areas for conservation is provided in Annex A.

If any state lands are to be privatized, they should be screened to determine if they have high values for the biodiversity conservation or to protect key environmental services (such as soil conservation, the provision of clean, reliable water sources, etc.). This would be a one time opportunity, as once lands are privatized it would be very difficult (if not impossible) for the Government of Macedonia to reacquire them. USAID could also help MUCE evaluate park management in terms of biodiversity conservation (see Recommendation 2 below).

(b) Review of the role of areas which are not strictly protected (particularly commercial forests) in the provision of environmental services and biodiversity conservation. Macedonia's protected area system is too small to conserve all of the country's rich biological diversity. Fortunately, other semi-natural systems can make significant contributions to biodiversity conservation, complementing and increasing the effectiveness of more strictly protected areas. In developing the biodiversity strategy, MUCE should work with the Ministry of Agriculture (particularly the Forestry Department) to determine how to best manage the nation's natural resources to produce a broad variety of benefits.

Potential mechanisms.

The best mechanism for developing a national biodiversity strategy would probably be either the existing Global Bureau's EPIQ policy IQC or the new Biodiversity-Forestry IQC, which is expected to be operational in September 1998. The Global Bureau also has a cooperative agreement with the World Resources Institute, which would also be worth evaluating as a potential mechanism.

Preliminary cost estimate:
\$150,000 - 200,000 total (over a 1-2 years)

The Biodiversity Support Program helped Bulgaria develop a Biodiversity Strategy for US\$290,000. This was an ambitious effort that engaged 122 individuals, sponsored a workshop with 75 participants, and produced 41 publishable papers. A strategy being developed for Crimea is far less costly. Publishing costs were also high, since the Bulgarian's decided that they wanted a very polished document to catch the attention of other donors. Macedonia's strategy should be smaller in scope and less costly than Bulgaria's.

Recommendation 2: Provide technical assistance to improve national policy and administration of protected areas.

USAID Role, Expected Results, and Justification.

National park management needs to be greatly improved. Currently, national parks are managed essentially like forests everywhere in Macedonia. Public companies harvest firewood and sawtimber in national parks, which they sell to finance park staff and pay for government services and taxes. As described above, overall responsibility for parks is complex, involving two Ministries, Parliament, a university, and the Union of National Parks and Hunting Grounds. On-the ground capacity to conserve parks and to enforce rules is very weak, conservation of key park features and biodiversity is not sufficiently integrated into management planning, and local municipalities and NGOs are not given sufficient opportunities to participate in park management. Numerous illegal activities occur within national parks, as enforcement of existing rules is spotty.

Fortunately, there appears to be consensus among both MUCE and the Union of National Parks of the need to make improvements in park management. MUCE is proposing to simplify park management, develop new mechanisms to finance parks, and to improve public participation in park management. To do so, MUCE has requested assistance from USAID to help develop new instruments for financing national parks, public participation, and administration.

A series of short-term technical advisors could assist MUCE in the following key national policy areas:

(a) The development of a new law for national parks and the corresponding implementing rules and regulations. MUCE is currently drafting a new law that will govern park management. They have requested USAID support in this and other policy and institutional areas related to biodiversity conservation and park management.

(b) Institutional arrangements that govern park management. The institutional arrangements governing park management are cumbersome. Park management should become more integrated, and the means by which it is financed should be reviewed to ensure that they do not threaten biodiversity. USAID could work with MUCE to: (a) explore option to reduce the impact of exploitative activities in national parks; (b) identify new cost recovery mechanisms that would reduce the dependence of park management authorities on wood harvesting as a primary source of revenue; (c) facilitate participation by local government in park management; (d) continue to explore and develop innovative partnerships with NGOs, such as the recent transfer of management authority of the Ezerani Reserve to the Bird Study and Protection Society of Macedonia; and (e) facilitate better coordination among government organizations and streamline management of national parks.

Expected results would depend on precisely what type of technical assistance USAID provided, but they would contribute to improved governance of natural resources and the conservation of both forests and other biodiversity. Technical assistance on cost recovery -- such as better planning, promotion, and control of tourism -- would generate new opportunities for economic growth which use the national parks but do not threaten their natural resources.

Potential Mechanisms.

Technical assistance could be provided through the Global Bureau's EPIQ policy IQC or the new Biodiversity-Forestry IQC, once it becomes operational. The Global Bureau's cooperative agreement with the World Resources Institute may also be another potential mechanism.

Preliminary cost estimate:

\$54,000 - \$82,000 (for 2 - 3 person months consulting time)

The cost of this component depends on precisely how much consultants' time Macedonia asks for and USAID chooses to provide. I would expect that at least two to three person months of consultant time/year would be useful. This would cost:

Consultant costs:

Salary	(\$300/day)(24 days)(2.2 multiplier)	\$15,800/month.
Per diem	(\$ 149/day)(30 days)(2.2 multiplier)	\$ 9,834
<u>Airfare</u>		<u>\$ 1,700/trip</u>
Total cost/person month		\$ 27,334

Since EPIQ is a possible mechanism, it would be easy for an assessment team to generate much more accurate estimates of these costs.

It is important to note that supplementary assistance could be provided very inexpensively by the US Parks Service, which would charge just travel and per diem cost and possibly some overhead for their administrative costs.

US Park Service costs:

Salary		donated by USPS
Per diem	(\$ 149/day)(30 days)	\$ 4,470
<u>Airfare</u>		<u>\$ 1,700/trip</u>
Total cost/person month		\$ 6,170

Recommendation 3: Provide technical assistance and small grants to conserve the Ezerani Strict Nature Reserve

USAID's Role and Expected Results.

The Ezerani Strict Nature Reserve protects an important wetland on the north shore of Lake Prespa. A series of studies by the Bird Study and Protection Society (BSPS) led them to make the conservation of this area their top priority, as the wetland is critical to a number of resident and migratory bird species, some of which are endangered. The area is also important in maintaining Prespa Lake's high water quality, as the wetland naturally helps to treat the effluent of the municipality of Resen, which flows into Ezerani. By providing modest amounts of technical assistance and small grants to BSPS, USAID will help conserve one of the most important protected areas in Macedonia. By the year 2000, key elements of the management plan developed by BSPS and the municipality could be implemented.

Equally importantly, USAID will support an innovative experiment in new forms of governance. BSPS is the first environmental NGO to become the official management authority of an official protected area in Macedonia. With the support of both MUCE and the local municipality, USAID support will conserve the Reserve and build new relationships between a national ministry, municipality, and civil society. MUCE plans to use the lessons learned to guide national policy.

Justification.

As noted above, USAID interventions may be most successful if they support key improvements in national policy while simultaneously supporting some innovative on-the-ground initiatives in protected area management. By choosing carefully, USAID can contribute to both in a single activity.

Working to improve the on-the ground management of the Ezerani Strict Nature Reserve (and possibly other nearby national parks) is very attractive for a plethora of reasons: (a) the area is a very high conservation priority, as this wetland conserves several species of endangered birds and protects the water quality of Lake Prespa; (b) clear, tangible results can be achieved over the short-term (the implementing NGO is well regarded and has the support of both local and national government; improved management is likely and the results will be conspicuous); (c) the results will be high-profile, since progress in this precedent-setting experiment will be carefully tracked by MUCE, the municipal government, and the NGO community (if successful, MUCE has indicated that similar efforts could be developed to improve protected area management across the country); (e) this effort builds on USAID's successes strengthening Macedonian NGOs through the Demnet Program. The Institute for Sustainable Communities (ISC) has been effective in strengthening NGOs working on all types of environmental opportunities. The proposed activities would further strengthen NGOs to participate in management of national parks and (in some cases) act as protected area managers. MUCE anticipates a much greater role for NGOs and local government in park management (for example, the draft parks law places both on the park management board); (f) results will contribute directly to USAID/Macedonia's objective of improved governance, supporting a model of decentralization and participation which has never been tried in Macedonia; (g) the support would be extremely cost-effective, as the few additional resources are required; and (h) ready mechanisms to provide support are available.

Background. Prespa Lake is large, very old, and very diverse. It is surrounded by protected areas on three sides: Galichica National Park extends to the western shore, while Pelister National Park lies up the watershed to the east. In addition, on the Greek side Minor Lake Prespa and the Greek part of Lake Prespa have also been designated as National Parks. It is rich in aquatic diversity and provides habitat for some globally endangered bird species, such as the Dalmatian Pelican (*Pelecanus crispus*), the Ferruginous Duck (*Aythya hyroca*), and the Pygmy Cormorant (*Phalacrocorax pygmeus*). In winter, the lake serves as a feeding ground for huge flocks of migratory waterbirds, which feast on the snails, insects, and waterplants in the northern part of the lake. Because of its tremendous biological diversity, Prespa has been designated a RAMSAR site, the international designation given to the world's most important wetlands.¹

¹ *The Convention on Wetlands of International Importance, known as the RAMSAR Convention, is the only international accord dedicated to the protection and conservation of wetlands. The United States and over 100 other contracting parties have committed themselves to the wise use of wetlands which they have identified at over 700 locations worldwide.*

While it has been overshadowed by Ohrid in terms of tourism, Prespa has great potential because of its spectacular location (between two national parks), clean water, and wildlife. While it has great tourism potential, it is still relatively pristine, allowing time to properly plan and control the development that is anticipated. Through a series of channels that pass under the mountains of Galichica National Park, Prespa also supplies 60% of the water entering Lake Ohrid. Thus, maintaining water quality in Prespa is key to the future of Lake Ohrid. For these and other reason, the conservation of Prespa Lake is one of the highest priorities identified in the National Environmental Action Plan.

Since 1989 the Bird Study and Protection Society of Macedonia (BSPS), a NGO based in Skopje, has been monitoring populations of water birds in Macedonia's large lakes. The most important result of this study was the importance of the wetlands along a 10 km stretch of the northern shore of Lake Prespa. Over 100 species of waterbirds use this area, in addition to tens of thousands of tree frogs and other aquatic species. The wetland also performs an important environmental service. The city of Resen dumps its waste waters on the edge of the wetland. The large belt of reeds cleans the water before it reaches the open areas of the Lake, helping to maintain Prespa's high water quality.

The Ezerani Reserve. Because of the wetland's importance, BSPS proposed the creation of a nature reserve. After extensive discussions with all the local villages, fisherman, hunters, and local politicians, all parties agreed, and in 1996 the Municipality of Resen formally proposed the creation of the 2,080 ha Ezerani Strict Nature Reserve (the Reserve appears to have good local support, as the mayor reiterated his support for the NGO and the Reserve when the team met with him). The Ministry of Environment supported the proposal, and the Reserve was officially created on July 29, 1996.

Even more significantly, BSPS petitioned the national government to become the official management authority. On November 17, 1997, BSPS received formal approval from MUCE. This type of partnership is particularly innovative. The Government realizes that it lacks the technical, financial, and human resources to manage the Reserve. By pairing themselves with the NGO, they hope to tap expertise and resources outside the public sector. Both the NGO and the Government realize, however, that this is a test case that will be carefully followed. It's success or failure will likely guide the development of public policy and the likelihood that similar arrangements will be tried elsewhere.

BSPS worked with local residents and government officials to prepare a management plan, which they are now poised to implement (see attached map). BSPS has founded a local section in Resen, and the Municipality has donated space in one of their buildings in Asamati for the development of an information center. While the BSPS has management authority, it does not yet have management capacity. USAID could play a useful role in helping build this capacity. This on-the-ground experiment could simultaneously conserve an important area for biodiversity while also informing the development of national policy.

Some of the proposed activities could provide model win-win solutions to the problems facing the Reserve. For example, pesticides from apple orchards are one of the main threats to the quality of the water which passes through the Reserve and on to the lake. BSPS would like to work with farmers to introduce new practices which will maintain apple production while reducing pesticide use. Farmers could save money on pesticides, which are becoming more expensive, while the Reserve gets cleaner water. In addition, BSPS would like to help market the healthier apples, as a German conservation NGO has successfully done. Other threats to the Reserve and proposed management responses are listed in Table 3.

BSPS would also like to open an information center in the space donated by the Municipality of Resen. This center would provide information not only on the Ezerani Reserve, but also on the two adjacent national parks. This could be important, as this information is almost entirely lacking. It also highlights just one of the synergies open to USAID should it decide to work in the area. Carefully directed local environmental education, improved resources and planning for tourism, and improved regulation of land use could benefit not only the Reserve but also the much larger neighboring parks. The experience in Ezerani would simply serve as the catalyst and a model for cooperation between national and municipal governments, local residents, and non-governmental organizations.

Key Threat	Proposed Response
Reed harvesting for roofing	Reed harvesting is declining as a threat on its own accord, but the management plan would restrict reed cutting to areas outside strictly protected zone.
Grass cutting (for cattle) threatens nesting birds	Postpone grass cutting from June to July to avoid the breeding bird season.
People disturbing bird nesting islands	Limit access to these islands during the breeding season.
Over-fishing	Concentrate fishing in the multiple use zone and prohibit it in the strictly protected zone.
Overgrazing by cattle	Prohibition of grazing within the Reserve

Table 3: Additional Threats and Opportunities for Management of the Ezerani Reserve

Potential Mechanisms.

The Institute for Sustainable Communities (ISC) has voiced their strong support for BSPS. To date, BSPS has received two grants from ISC and is currently one of the strongest NGOs

across all sectors in Macedonia. ISC indicated that there may be several ways that they could assist BSPS in the implementation of this program (should USAID decided to support it):

- (1) ISC plans to work intensively with a smaller number of NGOs during the second phase of their program. ISC and USAID could simply chose to include BSPS as one of these NGOs.
- (2) ISC plans to develop several local environmental action plans (LEAPs), and one could be carried in the Municipality of Resen. This would facilitate the collaborative relationship between Resen and BSPS. The Mayor of the municipality has already voiced his strong support for the Reserve and for BSPS. Supporting a LEAP in Resen would provide some very modest funds to continue this collaborative planning process, which would focus not only on the Ezerani Reserve but potentially also on the two national parks which also occur within the municipality.
- (3) Since ISC has a grant making mechanism, they have indicated that they may be able to channel funds directly to BSPS to implement this program.

BSPS may also require some specific technical assistance in reserve management, which could be provided through one of the G/ENV mechanisms (the EPIQ Policy IQC or the new Biodiversity-Forestry IQC when it comes on line in September 1998).

Preliminary cost estimate:

\$ 20,000 - \$ 40,000 for capital costs year 1

\$ 30,000 - 50,000/year to support various management activities (administrative costs and overhead charged by whatever mechanisms that USAID uses to provide support would be extra)

Capital costs, to improve a property donated to the Bird Society by the Municipality of Resen, are relatively well defined. Slightly under \$20,000 is required to repair the roof, and additional resources may be need to upgrade the donated building. The Bird Society will use this building as a headquarters and for educational outreach to the community and to tourists visiting the Ezerani Reserve and the two adjoining national parks.

Recurrent costs are more difficult for me to estimate. The Bird Society will need some technical assistance to implement the conservation actions that they have proposed. A management plan has been reported, and this plan should allow for more accurate cost estimates of proposed activities. Unfortunately, I have not seen the plan. Should USAID/Macedonia express an interest in supporting the Bird Society, it should be relatively easily to quickly generate accurate cost estimates.

Recommendation 4: Support the on-the-ground management of one or more of Macedonia's national parks

USAID's Role, Justification, and Expected Results.

Conserving Macedonia's national parks is a key to conserving the country's biodiversity and to providing appropriate economic development in and around these protected areas. For example, as economic and political conditions improve, parts of Macedonia have a large potential for tourism. Unfortunately, mechanisms do not exist to ensure that this tourism supports the conservation goals of the parks.

A design team should evaluate which of the 4 existing or proposed national parks should be the highest priority. Mavrovo National Park would probably not be a high priority, as the Dutch plan to work there. Šar planina National Park may be potentially interesting because of its large size and the possibility of an international park.

Recommendation 4a: Improve management of Pelister and Galichica National Parks.

If the Mission chose to work in the Ezerani Reserve, the national parks which flank both sides of Lake Prespa (Pelister and Galichica National Parks) would be a logical geographic focus. In addition, the Bird Study and Protection Society intends to provide educational materials on both parks in their information center. They therefore already have plans to be involved in both parks. Since they are a particularly strong and successful NGO, USAID could facilitate their work.

Preliminary cost estimate:

Cost could be negligible, if only additional education materials are added to the Bird Society's environmental education exhibit in Resen. If USAID chose to become more involved in these parks, then an assessment team would have to evaluate the needs of these two parks. The US Park Service could be of assistance in training park staff (see below).

Recommendation 4b: Improve park management through the LEAP process.

ISC plans to assist several municipalities with the development of Local Environmental Action Plans (LEAPs). One potentially synergistic mechanism would be to chose municipalities, such as Resen, which contain one or more national parks. Conservation of the parks could be one of the key environmental issues addressed in the LEAP process. ISC has expressed interest in this possibility. Other alternatives including working with international NGOs (potentially through one of the Global Bureau cooperative agreements).

Preliminary cost estimate:

\$7,000/year for a grant, plus staff time and overhead to ISC. (It could be done at minimal or no additional cost, if USAID/Macedonia decided with ISC to do it within the existing ISC workplan)

Recommendation 4c: Train park managers.

The previous discussion highlights how USAID could work with NGOs and municipalities to improve on-the-ground management of national parks. There is also a good opportunity to work with park staff themselves. The General Manager of the National Parks and Hunting Grounds has expressed great interest in professional exchanges with the US Park Service. He has participated in a study tour of US National Parks, and he would like to use management in the US as a model for Macedonia. To that end, he has requested that USAID arrange for BSPS staff to visit Macedonia to work with colleagues on key issues of park management, and/or that Macedonian park managers travel to the US for study tours. This would strengthen parks institutions by training key personnel. Trained personnel, particularly if coupled with some key policy improvements, will lead to better management of national parks.

Preliminary cost estimate:

\$ 13,000/2 week workshop in Macedonia, or
\$ 5,000/person training in the United States

Staff time by US Park Service is donated, whether training occurs in Macedonia or in the US. Travel and per diem. A little regional money (<\$50,000) is available, which may be able to be tapped. The US Park Service may be able to donate some resources toward this activity, if they became interested in supporting it, but they have not been approached yet pending USAID/Skopje's direction.

In Macedonia:

Salary	donated
(two trainers)(14 days)(\$149/day per)	\$ 2,086
(two trainers)(\$1,700 airfare)	\$ 3,400
<u>Local costs/space</u>	<u>\$ 7,000</u>
Total/2 week visit	\$12,486

In US:

Salary	donated
Meeting space	donated
Local per diem(appx.\$130/day)(14 days)	\$ 1,820/person
In country travel	\$ 1,500/person
<u>International travel</u>	<u>\$ 1,700/person</u>
Total/person/2 week visit	\$ 5,020/person

Recommendation 4d: Use Peace Corps volunteers.

The Peace Corps, which is currently expanding, has indicated that they would like to have volunteers in Macedonia. In many countries Peace Corps volunteers have worked with communities and governments successfully to improve the management of national parks. These can bring expertise in traditional areas of natural resource management along with business and other skills (all of which can be important in the management of Macedonia's national parks). The long-term on-the-ground presence of these volunteers can be very useful in nurturing positive community participation in park management.

Potential Mechanisms.

ISC could serve as a mechanism to improve park management through the LEAP process. For training in park management, the ENI Bureau has a regional agreement with the United States Park Service. The Peace Corps is a third potential mechanism for improving park management. It may be possible to channel some USAID technical support for training Peace Corps volunteers through the Global Bureau/Environment Center's Partnership for Biodiversity, an inter agency agreement with the U.S. Department of the Interior. The Peace Corps is the third "partner" in the Partnership for Biodiversity.

Preliminary cost estimate:

\$50,000 / year

Peace Corps would support the costs of its volunteers, whereas USAID would provide seed money for Peace Corps activities. This could include training for Peace Corps volunteers, plus some small project funds which would be available through an IAA.

Forestry

i. Background

As mentioned above, Macedonia is 40% forested. These forests are distributed in altitude belts, ranging from the oak belt at lower elevations to the beech belt, sub-alpine beech, and eventually conifer belt at higher elevations. The vast majority of Macedonia's forests (91%) are deciduous.

Ninety percent of Macedonia's forests are state-owned; the rest are privately owned. Of Macedonia's 906,000 hectares of forest, 92% are industrial, 2% are protective, and 6% are in national parks and other special designations. About 29% of all forests are well developed, tall forests, whereas 71% are short-statured or degraded

Thirty eight public companies manage Macedonia's public forests: 30 of them manage commercial forests, 3 manage national parks, and 5 manage protective forests and forests with "special purposes." The new Forestry Law maintains the system by which public forests will be managed by public companies which are financed by timber production.

Most (95%) of Macedonia's industrial timber production is used for domestic consumption. Since Macedonia's forests are mostly deciduous, the country is able to meet its hardwood demand, but not its demand for softwoods (conifers).

ii. Constraints and Priorities

Macedonian foresters are highly trained and justly proud of the long tradition of forest management in this country. However, their models of forest management are very traditional, focusing largely on timber production. Management thus focusses on the production of trees and the stand level. Ecosystems management -- which emphasizes management at the landscape level, public participation, and the management of forests for multiple benefits (biodiversity, water, etc.) -- is apparently not yet common in Macedonia. As Macedonians demand more from their forests than wood, and as Macedonia works to meet EU standards for forestry, new models of forest management will be needed.

iii. Other donors/IFI activities

No donors are currently supporting forestry activities within Macedonia. EU Phare is in the early stages of developing a forestry program which may begin in 1999.

iv. Recommendations

USAID Role, Justification, and Expected Results.

USAID could provide short-term technical assistance in ecosystems management, fire control, and other related topics to key forestry professionals in the Ministry of Agriculture and the 30 socially-owned forestry enterprises. The Macedonians would benefit from interactions with their colleagues in the US Forest Service, who may have experience in new approaches to forest management which would be useful in Macedonia as natural resource management becomes more democratic and people expect more from their forests than just wood.

However, at the moment it was not clear how eager the Forestry Department and the Ministry of Agriculture is to this type of assistance (the Department seemed more interested in new equipment than in technical assistance). At an absolute minimum, the Department of Forestry should be involved in the preparation of the Biodiversity Strategy, since they are responsible for the management of huge land areas. This involvement may prompt greater interest in ecosystems management.

Potential Mechanisms

The Global Bureau's Environment Center has a cooperative agreement with the US Forest Service, which could be used to provide short-term technical assistance and training.

Preliminary cost estimate: To be determined

Sources

Republic of Macedonia, Ministry of Agriculture, Forestry, and Water Utilization. 1996.
Strategy on Development of Agriculture, Forestry, and Water Utilization. Skopje.

B. Urban Industrial and Policy Issues

i. Background

Industrial pollution has caused extensive environmental damage in Macedonia. This problem has been partially mitigated by companies currently working at only 40-50 percent of their capacity. However, as the economy revives, environmental degradation will go unchecked unless measures are taken now.

Air pollution, mainly from industry, has been identified in the National Environmental Action Plan (NEAP) as the most important environmental problem in the country. Chemical plants, oil refineries, fertilizer factories and smelters are some of the worst polluters.

Water pollution is also a problem. The ecology of the Vardar river (which flows through the most populated cities in Macedonia) is affected by untreated municipal wastewater and industrial effluents. Chromium, iron, cadmium, lead and zinc are all being dumped directly into the river and its tributaries.

There are no waste management regulations in Macedonia. Consumer wastes are disposed of randomly, and official landfills are poorly constructed. Toxic industrial waste is contaminating ground water and degrading soil in many areas.

Environmental problems adversely affect human health and present an obstacle to sustainable growth. Without intervention by USAID, it is likely that industrial pollution will go unchecked.

ii. Constraints and Priorities

In a country with 34 percent unemployment, even the worst polluters will not be shut down. Beyond the obvious environmental implications, the larger problem is that the economic significance of environmental investments is being overlooked. For the most part, sustainable growth is still a foreign concept to ENI counterparts, and USAID can play an important role by demonstrating the linkage between the environment and economic prosperity. USAID should work in the environment sector in Macedonia to promote economic growth in general and sustainable growth in particular.

While reducing damage to the environment, environmental projects contribute to the financial viability of companies (and by extension, to economic prosperity) in several ways: 1) cost savings can be realized through cleaner production and waste minimization projects; 2) compliance with EU environmental standards is a prerequisite for export to European markets; 3) reduced environmental liability increases the potential for foreign investment; and 4) pollution controls reduce possible fees and fines, which take away resources for capital investments.

Another link between economic growth and environment is the impact of pollution on human health. Illness caused by environmental factors increases healthcare costs borne by the state. It also lowers productivity as the number of sick days or days in the hospital increases. Ultimately, a healthy workforce is a productive workforce.

In order to clean up the environment, put Macedonia on the road to sustainable development and improve the health of the population, USAID should implement a program under strategic objective 1.6, "Increased environmental management capacity to support sustainable economic growth."

iii. Other Donor/IFI activities

The proposed project work would compliment the work being done by other donors. Since the EU Phare, World Bank and EBRD are focusing on studies and large-scale endeavors, USAID can implement the smaller-scale projects in the environment sector.

Since the other donors are focusing heavily on the environmental quality of the lakes, USAID should focus on those projects which impact air, soil, and--to a lesser extent--the rivers. The fact that other donors are implementing projects to monitor the levels of pollution in air and water means that the impacts of USAID projects could be easily measured.

The EU Phare is considering providing advisory support to the MUCE, but this should not necessarily deter USAID involvement in policy development. First, the EU Phare has not made any decisions in this regard yet. Second, the volume of work to be done in this area leaves plenty of room for cooperation. EU Phare should have a more concrete work program by early 1998, and USAID should coordinate its efforts in this area.

iv. Recommendations

Following, is an overview of activities to be implemented under strategic objective 1.6 (although they would also fit under 1.3). The recommendations are listed in order of priority, and they take into account work being done by other donor agencies and by other USAID projects.

Recommendation 1: Implement Small-Scale Demonstration Projects (short term)

Small-scale pollution prevention projects should be identified and implemented in the early stages of the program to create a demonstration effect. USAID would finance a handful of such projects in different regions of the country for various industries. The projects should be initiated early in the program and be phased out as Macedonians begin to finance these projects on their own.

The goal is to show the payback that such projects can have not only in terms of environmental improvement, but also in terms of cost savings for the enterprises. Followed by seminars for other plant managers and policy makers, interest will be generated to replicate such projects.

Such projects are relatively easy to implement and yield visible results. Environmental projects would demonstrate to host country counterparts that USAID is actively providing assistance to Macedonia.

To accelerate project implementation, work with enterprises should be coordinated with the Macedonian Business Resource Center (MBRC) project. MBRC could assist in identifying privatized and privatizing companies with environmental needs, and the demonstration projects could reinforce the business development work being done by MBRC.

Recommendation 2: Assist in the Development of the Environmental Fund to Serve as a Renewable Source of Project Financing (medium term)

Although most enterprises can realize significant pollution reduction and cost savings with minimal investment, many companies in Macedonia lack resources for any type of investment and commercial lending is not a viable option. Moreover, plant managers are reluctant to make environmental investments, which had been the responsibility of the central government for so many years. Now privatized and restructured enterprises must finance their own investment needs.

Where will the money come from? How can enterprises be forced to comply with environmental standards if they have no resources for pollution control equipment? Other countries have solved this Catch-22 through the creation of environmental investment funds. These funds are capitalized by fees and fines collected from polluting enterprises and municipalities. The penalties accumulate in a fund, from which loans can be made for environmental investments. In Poland, for example more than \$2 billion has been generated by the environmental funds -- the demand for loans from the funds is even greater.

USAID has worked extensively with environmental funds in the region to develop transparent and rational lending procedures and train fund staff in project evaluation. To receive funding, the project must be technically sound from an engineering standpoint and have a positive impact on the environment. On the project side, USAID has promoted the use of the funds as a source of financing and worked with applicants to produce project proposals that are worthy of financing.

Because the concept of an environmental fund has been approved and the Ministry for Urban Planning, Construction and Environment (MUCE) has begun to gather resources for it, USAID has a window of opportunity to influence the transparency and effectiveness of the fund before procedures are established. The Ministry has welcomed this assistance, and

USAID should begin providing it as soon as possible. The most pressing need is to provide guidance on how fees and fines could be used to capitalize the fund.

Work with the MUCE on the environmental fund should begin immediately. Ideally, the demonstration projects would stimulate interest in more investments and lead to a pipeline of projects to be financed by the environmental fund. Depending on the success of the fund, USAID assistance could continue from one to three years.

Recommendation 3: Provide Policy Support to Monitor and Enforce Compliance with Appropriate Environmental Standards (medium/long term)

In order to make "polluters pay," new policies need to be put in place to create economic incentives and impose penalties. The institutions currently responsible for monitoring and enforcement functions need to be restructured. And staff persons within these institutions will need guidance on their new roles and responsibilities.

The environmental management capacity of the Macedonian government is severely limited because the MUCE is starting almost completely from scratch. Although the 1996 Law on Environmental Protection and Natural Resources outlines the basic policy requirements for the country, implementing regulations still need to be completed in many areas.

Preliminary analysis shows that work in the policy area could include: reorganization of the environmental monitoring network as a basis for compliance and setting standards; establishment of emission standards for air and water; establishment of regulations for industrial self-monitoring; introduction of regulations on waste management; development of a schedule of fees and fines (for air and soil); reorganization of the enforcement system for imposing pollution penalties; and the creation of a law on environmental impact assessment. There are many other possibilities.

A long-term policy advisor should be assigned to work with the MUCE. The advisor would assist in drafting legislation and advise in restructuring the institutional system for environmental management. The person should have at his/her disposal short-term expertise to address specific technical issues. This work could continue for one to three years, at the mission's discretion.

Potential Mechanisms

During the pre-assessment, the mission indicated that it is desirable to begin implementation as soon as possible. Therefore, it makes sense to use existing contract vehicles to meet the stated objectives.

1. Environmental Action Programme Support project (EAPS)

The EAPS project was designed as USAID's contribution to an international agreement, the Environmental Action Programme (EAP) adopted by Central European, NIS and Western countries in 1993 in Lucerne, Switzerland. The EAP was implemented to identify environmental problems affecting health and to attract investment (foreign and domestic) to solve these problems. Each of the CEE and NIS countries was charged with developing National and Local actions plans on the basis of the EAP.

Top priorities identified in the National Environmental Action Plan (NEAP) for Macedonia are: "to improve the quality of the environment in urbanized areas by reducing sulphur dioxide pollution...and by developing comprehensive waste management systems" and "to improve...surface water quality by eliminating discharge of untreated industrial effluent."

The EAPS project supports Macedonia's priorities since its overarching objective is to implement projects and stimulate investments in projects which reduce air, water and soil pollution. This is achieved through four types of activity: 1) identifying and packaging projects for financing by sources outside of USAID; 2) identifying and implementing projects through USAID technical assistance and procurements; 3) working with institutions such as environmental funds to establish and expand local sources of financing; and 4) providing technical assistance to institutions responsible for environmental management.

In Macedonia, EAPS should fulfill two functions (as described in the recommendations section):

- Identify and implement environmental projects
- Assist in the development of the environmental fund

2. Central and Eastern European Environmental Project (C4EP)

The C4EP project is also designed to serve as a USAID contribution to the EAP and is intended to work in parallel with the EAPS project. The Macedonian NEAP identifies as a priority the need to "strengthen the environmental management capacity by developing appropriate regulations and increasing the capacity of institutions responsible for monitoring and enforcement." The C4EP project should be used to provide policy support for USAID's environmental program.

The Policy-Project Feedback Loop

The feedback between project implementation and policy work should be kept in mind when deciding which projects to add to the portfolio. Essentially, policy enables projects and projects identify which policies are lacking or should be changed.

It often happens that project implementors initiate new policies in order to complete their work, but a policy project is highly recommended in Macedonia in order to expedite putting in place the penalties and incentives. Having the right policies in place paves the way for project implementation. Conversely, projects can "fast forward" the time required to push through necessary legislation by serving as an incentive for counterparts. EAPS and C4EP would have such a synergistic relationship, each leveraging the work of the other project.

Preliminary cost estimates

The following calculations are very rough, and should be refined by a design team which would discuss more specific timeframes and deliverables with the mission.

Work on the demonstration projects and assistance to the environmental fund should be combined under the same project to achieve economies of scale. The demonstration projects should serve as an incentive for fund development rather than being an end in themselves. The fund would serve as a means of ongoing project financing.

Demo Projects/Environmental Fund Costs - An expatriate advisor would work with the environmental fund and oversee work on demonstration projects. One or two foreign nationals would be recruited to assist in the implementation of the demonstration projects. They would also be trained in the work of environmental funds, and the expatriate could be phased out after one and one-half or two years. Costs, including small equipment procurements, specialized assistance, salaries, home office support and overhead, would be approximately \$1 million per year.

Policy Work Costs - The project would be staffed by a full-time expatriate advisor, working at the national level for one to three years. This advisor would be supplemented by short-term specialists as necessary and be assisted by at least one full-time foreign national. Costs, including home office support, short-term TA and overhead, would run approximately \$1 million per year.

C. Urban Finance and Local Governance

[Note: This section is a first cut at defining issues, priorities and recommendations for the Urban Finance and Local Governance focal area. Further work will be done to define this area during a second visit in January by a local governance team.]

i. Background

Since the creation of the State of Macedonia, little attention has been paid to urban infrastructure in general, and to environmental infrastructure including water provision and wastewater treatment in particular. Many small communities are lacking in adequate water treatment resources, and few cities possess any wastewater treatment capacity, Skopje among them. While some industries undertake basic pretreatment of wastes, this is exceptional, and generally both household and industrial wastes are indiscriminately disposed of.

ii. Constraints and Priorities

The Law on Local Self Government shifts responsibility for urban infrastructure finance and service provision to municipalities with no capacity to raise revenues or manage their new responsibilities. At the national level Macedonia is faced with major impediments in access to infrastructure credit, and at the local level, with institutions and personnel lacking the resources and authority to properly carry out responsibilities. As Macedonia looks forward to integration into the European Union, solutions to urban environmental pollution must be found to meet EU standards, yet the institutional capacity and the financial structures are lacking to do so. Solutions to raising the quality of environmental standards are closely linked a revamping of the relationship between the central and local government, including a better distribution of authority and responsibility for funds and decision-making.

1. Legal and Regulatory Framework

Water and wastewater provision, along with many other municipal services such as parks, urban transportation, etc. are provided by public enterprise companies, joint stockholding companies with partial employee ownership, and partly State ownership (a formula adopted as a means of quasi-privatization, under the law on utilities). Local governments have exerted almost no control, and supervision (tariff setting, for example) was carried out at the central government level; capital investments were made, if at all, through central grants, with construction carried out by line Ministries.

The 1996 Law on Local Self Government, which stripped away many of the pre-independence powers of municipalities, has allocated responsibility for utilities to cities, including the power to hire and fire utility company management, approve budgets, set tariffs (within limits approved by central government), allocate city budget resources for infrastructure improvements, nominate a majority of the Board of Directors, and receive

profits from the utility companies. However, local government is relatively weak, fragmented, and lacks the revenue raising powers required for financing necessary improvements and capital investments. While substantial responsibilities for service provision have now been given to the cities, they are totally unprepared in terms of management capacity, financial authority and know-how.

Utility companies, according to sources consulted, have been overstaffed, and unmotivated to invest profits in improvements—indeed, to improve service levels at all, since there was no control by elected representatives. Lack of incentives for maximization of profits, efficient service delivery, and rational tariff setting to cover real costs are compounded by deficit-coverage by central government, and fee collection housed in the Ministry of Finance, not the company itself. The utility companies have been reluctant to undertake the restructuring which the new legislation requires, a situation which has been exacerbated by the lack of clear guidelines for implementation from the central government.

As an examples of the inefficiencies of the system, billing collections vary between 10-40% of billed costs, and only recently were the companies authorized to cut off service to non-payers (but have not done so for socio-political reasons); water loss reaches approximately 50% of water produced; the tariff for Skopje is acknowledged to be only half of the affordability index established by the World Bank, and only covers operating expenses and small improvements to the system, but not capital improvements and system extensions.

As noted previously, wastewater treatment is minimal. The cities have no ability at the moment to access investment capital, because their revenue raising capacity is strictly limited by law, and in 1997 only \$200,000 was allocated from the national budget for water and wastewater improvement grants for the entire country, with 1998 budget projections at a similar level of investment. The central government, on its side, is reluctant to entertain international credit financing up to the present time, but seems not to have developed any rational alternative for infrastructure finance.

There are clear investment priorities which have been identified by donors such as the World Bank, USAID consultants, as well as the Municipality of Skopje: a wastewater treatment plant for Skopje, and at least one other city on the Vardar River; treatment of industrial waste from the numerous small industries scattered about the country; at least some minimal treatment of wastewater in most smaller cities; improvements in leakage control to lower user costs and maximize the current systems, and better management, both financial and administrative. On the local government side, strengthening their capacity to manage current and new responsibilities is imperative.

The problem of pollution control is inexorably linked to that of policy change. The key to any profound improvement will depend upon laying a basis for an improvement in the relationship between central government, local government and the public utility companies. Local governments should receive the needed funds according to a transparent, objective and consistent system, and possess the authority to levy and spend revenues without undue control by central government and utility companies must answer to elected representatives.

2. Financial Strategies

As the central government is unable to finance vitally necessary environmental infrastructure, devolution of authority to the cities will need to take place in the near future in order to meet EU accession requirements for both environmental standards and for local administration. However, this solution supposes that cities and utility companies are or will be credit-worthy, a situation which can only come about if a number of obstacles are removed and changes initiated such as:

- local government control of tariffs and taxes to permit full cost recovery permit capital investment
- enhancement of local revenue-raising capacity
- financing of operating deficits ceases (in effect, a subsidy)
- ability to retain operating surpluses to enhance credit worthiness and permit multi-year capital expenditure planning
- establishment of clear and transparent basis for capital subsidies to local government

3. Institutional Capacities

The GOM recently increased the number of municipalities to 123; the capacity at the local level is very limited, as is its authority. Aggravating this situation is the fragmentation of responsibilities between local and central government and between Ministries; for example, water provision is a municipal responsibility, but operations are carried out by a public enterprise, while monitoring, and control are central government functions. Municipalities are not authorized to take steps to mitigate pollution or to fine polluters. At the central government level, inadequate regulations and ordinances have been formulated to implement new laws, and there is a lack of clarity of roles and responsibilities amongst different agencies of government. There is no provision of cross-departmental decision-making and policy-setting, and it appears that the entire problem of financing of local infrastructure has been set aside, in favor of a system where the Ministry of Finance sets budgets, takes on payment and collection responsibility, and generally plays an unduly powerful role with little delegation of financial responsibility. There is a gap between formulation of policy at the national level and the allocation of responsibilities for implementation.

iii. Other donor/IFI activities

The British Know-how Fund has had a twinning arrangement between Skopje and Bradford for some years, and has been requested by the city council of Skopje for administrative assistance, and is considering new projects. In addition, 40,000 pounds is available for environmental projects. It would welcome a joint project with USAID.

The World Bank identified a waste water treatment plant as a priority for lending two years ago, but the GOM has been hesitant to borrow, hoping that donors would give grants instead. In the meantime, the WB has secured a Japanese Trust Fund grant to begin project

preparation on this facility, and expects to tender the contract in the near future. At the same time, EU Phare has negotiated with the Ministry of Environment to prepare a national and Skopje wastewater strategy (as well as a solid waste strategy) which will be coordinated with the World Bank project preparation work. Work on one or both should begin by late spring 1998.

Of significant importance are the Phare projects. The Environmental project may provide advice to the Ministry of Environment on financing of infrastructure, while the Public Administration Project will create a Government Commission on Public Administration to address the problem of policy formation on a cross-departmental basis, to provide a strategic approach to change management, and to lead the government through a well directed reform process. Also included is a component focused on restructuring central/local government relations including revenue sharing and devolution of authority. This effort will commence in Spring 1998, and conversations with Phare project managers indicate a desire to closely coordinate their efforts with USAID efforts from the initiation of project planning.

iv. Recommendations

Problems exist at the level of national policy-setting, as well as at the local level where policies are implemented. While it is imperative to change many aspects of the financing of environmental infrastructure and to work towards devolution of authority and finance to local authorities, it is equally important to work to strengthen the local institutions' capacity to manage. Currently the situation is in flux, and the change in legislation necessitates putting in place new structures and lines of authority at the local level, as soon as possible.

USAID is presented with an opening for effecting change and improvement which should be seized immediately for several reasons:

- the Law on Local Government is finally being enforced
- other donors have highlighted the above-cited problems as obstacles which need to be addressed and are proposing programs which will result in the types of policy change needed to accomplish significant, measurable and sustainable results
- the government needs access to finance and is poised to make key decisions which will require reforms
- USAID still has the comparative advantage, through work to date with local government and utility companies.

The current local government project has demonstrated that small amounts of money can be effectively combined with management assistance to produce good pilot results. USAID should use this opening to provide models of improved service management and financial management, and elected bodies' decision making. However, it should be remembered that whatever assistance is provided at the local level, the results will be limited; policy change is necessary for meaningful and sustainable reform, and it is recommended that USAID provide policy advice to central government to promote cost recovery, service improvement, and

ability of cities to finance environmental infrastructure. Finally, infusions of capital through IFIs are needed for major investments and USAID should seize the opportunity to leverage investments by providing TA, as has successfully been done elsewhere in Central and Eastern Europe.

USAID's Role, Justification, and Potential Mechanisms

Based on the foregoing analysis of the existing situation, the major problems and the opportunities presented, several options can be suggested for USAID programmatic intervention.

Recommendation 1: Assist in urban water and wastewater improvement projects

Rationale: Provision of basic wastewater treatment facilities and improvements in the cities' ability to take on new service responsibilities is an immediate concern and offers immediate programmatic opportunities which are in themselves linked to the implementation of policy changes. Both the municipal administration and the utility company would have improved administrative, financial and environmental service capacity.

Background: The Law on Local Government now makes the municipality responsible for utility companies. However, the city does not have the capacity to do this. The utility companies, on their side, are poorly managed, especially from the standpoint of finances, and their productivity and service delivery require improvement. They need support on pricing of services, small technical improvements (paid for directly by project) which will help control leakages, reduce costs, and control pollution. Furthermore, assistance is needed at the local level--in parallel to national policy changes favoring increased authority and responsibility at local level.

Project: A joint municipal finance-infrastructure improvement project can focus on a small group of cities chosen according to well defined criteria, for improved management of municipal finance and utility finance, administration and service provision. Small capital improvements will be paid for through the project, resulting in service improvement and provide the focus for carrying out related administrative and financial changes enabling cost sharing of financing. The project cities' " lessons learned" will be disseminated to a second tier group of up to ten cities through a process of technical workshops which explain techniques used, such as cost of service analysis, etc. In parallel an industrial pollution project can target the same cities' industries in particular those emitting waste into the municipal system.

Project results:

- immediate improvement in wastewater pollution control and management of services(i.e less pollutants in water, less leakage...etc)
- creation of a model for municipal and utility company management which can be reproduced

- improvement in urban financial management of services
- increased financial resources available for service improvements
- strong linkage with Local Government project to work with municipalities on strengthening financial management capacity, and control of polluting industries
- creation of focus of activities for NGOs

Linkages: For maximum effectiveness, this project should be designed and executed in combination with a Local Government project given the mutual policy and implementation issues, and the groundwork already accomplished through the Local Government project. It should also be tied closely to other programs which might leverage funds, and in particular to an industrial pollution control program, as assistance and funding could be effectively channeled for infrastructure improvement projects.

As a combined program with local government and industrial pollution control, both long term and short term advisory assistance will be needed over a 2 year time period.

Recommendation 2: Work on policy change in municipal infrastructure finance

Rationale: Central government is not financing needed environmental infrastructure, and local governments and their utility companies do not have the authority or the ability to raise needed resources or to borrow to do so themselves. Until the policy issues related to infrastructure finance are addressed, no significant and sustainable improvements in environmental infrastructure are possible.

Background: Technical Assistance (in tandem with work on the relationship of local-central government) will focus on the restructuring of public finances. Local financial capacity is a major problem today, due to legal blockages preventing municipalities from exercising their responsibility for infrastructure provision and environmental services.

The policy changes to address are, broadly speaking:

- the ability to set tariffs based on market principles, to cover investment costs
- the ability of local governments to raise sufficient taxes to create a steady and sure financial base to establish creditworthiness
- clarification of municipal property rights and the right to use municipal property as collateral
- the ability of cities to determine staff needs and salary levels

Project: A project to support policy change will combine technical assistance in specific legal reforms with a sensitization and training component. Initially, advisory assistance would focus on working with decision-makers to better define the problem of credit access and what laws need to be changed and why. The result of the first stage is to build a constituency and support for policy change, and will involve central government, mayors, and private sector. A second stage, assistance provided to the Central Government on legal reform, should be

coordinated with EU Phare planned assistance in local public finance reform. Assistance will be carried out through short term advisors, and the focus will be decentralization of local government authority and finance, and municipal infrastructure finance. This effort will take place over a 2 year time frame.

Linkages: This project is directly linked to efforts in local government reform, as well as efforts in privatization, and will support IFI infrastructure credit reform. It is expected that EU Phare grants will be conditional upon substantial policy reform in this area.

Recommendation 3: Provide technical assistance to the Skopje wastewater treatment plant.

In conjunction with an IFI lender (most likely World Bank) USAID should provide Technical assistance in management and implementation to meet loan conditionality. USAID has carried out similar work in Romania with EBRD and in other countries, where a small technical assistance component has leveraged millions of dollars of investment. Such a project would depend on the GOM's decision to proceed with a World Bank loan.

III. ANNEX

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Notes from Meetings on Urban/Industrial Environmental Issues

Meetings notes 12/1/97

10:00 AM USAID Mission, Skopje, Macedonia

Steve Hayes - Mission Representative

Steve Szadek - General Development Officer

Steve Gonyea - Private Sector Officer

Melody Bacha - Team Leader

Bonnie Walter - Municipal Specialist

Angela Crooks - Urban Pollution Specialist

Introductions were made and the mission talked about what they would like to see as a result of the pre-assessment. Deliverables for this trip include: 1) a rationale for including environment in the mission's strategy; and 2) two or more project options for consideration.

The mission appears to have a preference for Skopje, based on the demographics of the country. There are only two million people living in Macedonia, with 600,000 in Skopje and the rest scattered in smaller locations.

There was also some random discussion related to our visit. Supposedly, the lead and zinc smelter is highly politicized, and the Japanese have had a bad experience in trying to provide a loan to the smelter. Since the smelter accounts for 90 percent of the ambient pollution in Veles, the team will probably not include that city in its list of site visits; it would be odd to work in Veles and NOT work with the largest polluter, therefore, it's better to go elsewhere.

The main river in Skopje (the Vardar) is also highly polluted, and as such, a project focusing on cleaning up the river might integrate work with communities/municipalities. This idea has not been discussed yet... Another possible project would focus on the overuse of pesticides in coordination with other USAID agricultural projects. This was suggested by Steve Szadek.

11:00 AM Toplifikacija - District Heating Company

Dimitar Hadzi-Misev - Manager

Joco Sami - Engineer, interpreter

Melody Bacha

Bonnie Walter

Angela Crooks

This public enterprise controls the district heating system for Skopje, which consists of four plants. The fuel is mazout, used to operate a hot water system. Revenue is \$25 million per year. Fees are based either on meters or the state calculation; rates are calculated in accordance with the national government guidelines.

A new district heating system is being set up as a shareholding company, Sever, with the bulk of the investment being provided by energy suppliers and the pipe company. Toplifikacija hopes to expand to other cities as well.

Ecologically, the mazout used contains less than one percent sulphur. However, the company is looking at buying a machine to clean flue gases, which would enable them to use lower grade oil. U.S., British and Swedish companies have submitted bids to provide this apparatus.

The system is also capable of using natural gas, although whether or not gas is used depends on pricing. The cost of gas is also set by the national government.

The most interesting point of the meeting was that Toplifikatsija offered to build an air quality monitoring system for Skopje. The cost would be \$500,000, most of which could be recovered through fines with a start-up time of six months. Instead the government has chosen to receive air monitoring assistance from the Japanese as a \$5 million project which has been in the making for two years already. Aside from not wanting to spend \$500,000 up front, there may be systemic differences in what is being proposed since the \$500,000 version

only measures 45 consumers' output in two or three areas of the city. Toplifikacija argues that they could expand their system and that it is, in fact, very similar if not the same.

1:00 PM at mission w/DAI Development Alternatives, Inc.

Don Manning, Chief of Party - Public Administration Project for Macedonia

Eric Richardson - Democracy/Environment Officer

Melody Bacha

Bonnie Walter

Angela Crooks

Don Manning talked about the relationship between utilities and city administrations, which is still evolving. Essentially, the mayors either do not know how to assert their authority or do not feel comfortable doing so. Parliament determines the maximum permissible rates for water use, and a new law makes it possible to shut off customers for non-payment.

There is also a new law on local governments, and there is a municipal finance officers association.

Ethnic issues complicate local governance matters. Mayors have been known to fly the Albanian flag and be thrown in jail for it! Luckily, environmental issues transcend nationality issues.

Meetings notes 12/2/97

10:00 AM U.K. Know-How Fund

Gerard McGurk, Project Officer

Melody Bacha

Bonnie Walter

Angela Crooks

Doug Mason - Forestry/Biodiversity Specialist

The Know-How Fund has been working with the Ecologist Movement of Macedonia since July 1997 on public awareness/litter campaigns. The Bitola National Park project includes three components: exchange of information with three NGOs, a visit to Yorkshire National Park, and a visit of British experts to develop an action plan for changing the mindset of the citizens regarding the environment. The public awareness work encourages the local authorities, as well as citizens, to take responsibility.

The Know-How Fund is also working on waste management (landfills). Problems with landfills were identified in June and July 1997, and feasibility studies may be conducted.

A feasibility study was conducted on Lake Dorean on the impact of Greece draining water from the lake.

The Know-How Fund is establishing business resource centers. It was also mentioned that all companies are required to join the Economic Chamber of Macedonia.

11:00 AM Water Utility Company of Skopje

Aleksandar Ivanovik - Director

Melody Bacha

Bonnie Walter

Angela Crooks

Doug Mason

The discussion centered around the question of how infrastructure is financed. The public enterprise, and all others in the country, are 100 percent owned by the local government. The city manages it through a Board of Directors, represented by six members appointed by the city and three from the public enterprise. The director is appointed by the mayor. The budget is determined by the Board.

The only income of the public enterprise is revenue derived from its operations. Although a maximum water tariff is established by the Ministry, the city can adjust that price within the prescribed range. As it stands now, the utility is just covering its costs and has nothing left over for capital improvements. All water is metered, and the collection rate is said to be 72 percent [which seems a bit on the high side]. All water used by consumers and industry is metered, but water used for agriculture and parks is not. The amount of water lost (spilled) is around 50 percent.

Small investments have been paid for by the city, but the enterprise did not actually receive the full amount that was allocated. There is a need to increase the supply capacity and build a wastewater treatment system.

The chemical, mining and steel industries are dumping waste into the river. The chemical industry has treatment equipment (in disrepair), while the other industries have nothing to treat their water. The biggest problem is the chemical plant, OHIS, since the other industries have slowed down production due to poor economic conditions. If the industries revive, this could be a big problem again.

The utility would like to get money from the donor community and believes that it could pay back loans by raising rates, which have not increased in four years.

2:00 PM World Bank Resident Mission

Aleksandar Nacev - Agriculture & Environment Coordinator

Melody Bacha

Bonnie Walter

Angela Crooks

Doug Mason

The Macedonian government is not willing to borrow for environment. It is possible that wastewater treatment work for Skopje and Bitola would start in FY 1999. Some work is being done on irrigation rehabilitation.

3:00 PM Ministry of Urban Planning, Construction, and Environment (MUCE)

Mihail Dimovski - Undersecretary for Environment

Eric Richardson

Melody Bacha

Bonnie Walter

Angela Crooks

Doug Mason

Our counterparts seemed pressed for time, and the information received was unsatisfactory. Melody and Doug scheduled a follow-up meeting. Below is the information that we obtained in this first meeting.

The staff has expanded and the org. chart has changed since the NEAP was written. The Ministry is now "fully staffed" and waiting to receive some equipment. When asked about their budget, the question was sidestepped.

The environmental fund has not yet been established as a legal entity; it is pending approval by the legislature. Environmental acts need to be written to support and capitalize the fund. For now, \$1 million is in a bank account from taxes on automobile insurance.

The Ministry is working with the Swiss and Japanese on monitoring projects for water and air. The World Bank and Phare are working with the Ministry on solid waste management, WWT and air quality monitoring (see project descriptions).

New legislation has been proposed on pollution permits (which would help capitalize the fund) and air act.

4:30 PM Institute for Sustainable Communities (ISC)

Steve Nicholas - Director

Angela Crooks

Doug Mason

Steve provided recommendations on site visits in light of his experience working with NGOs in the country. ISC has provided training in developing local environmental action plans (LEAPS) to local NGOs. Under the DemNet project, the environmental NGOs assisted with LEAPs for Skopje, Kumanovo, Bitola, and Abila Bunisiste (sp). If the ISC project is extended, it would assist with 4-5 more LEAPS, a priority of the MUCE.

The key environmental NGOs are: Ecologists Movement of Macedonia (an umbrella organization) and Ovstanok (based in Skopje). Most NGOs are community based rather than issue based.

Meetings notes 12/3/97

9:00 AM Ministry of Finance

Mr. Mitko Todevski, Financial Advisor for Local Government

Bonnie Walter

Angela Crooks

Malita

There are two major sources which cities can appeal to for financing wastewater treatment projects: 1) through a special program of the Ministry of Urbanism, Construction and Environment (Urbanism/Planning Department) and 2) through the Agency for Support of Underdeveloped Regions. In the first method, the MUCE sends a proposal to the Ministry of Finance for approval. In the second, the Agency uses part of its budget for such a project. There is no line item budget, however, for this type of project.

A third possibility is to collection donations from the citizenry in the form of additional taxes. In this method, a referendum is used to determine citizen support for the initiative.

Forty-five million denars have been requested for water projects from the 1998 budget, of which only 25 million will be available. Another one million denars will be provided to the MUCE for a special study; 15 million denars was the requested amount for this study.

Municipalities cannot borrow directly from international donors unless a sovereign guarantee is arranged through the Ministry of Finance. Provided that a proposed project has a clear revenue stream, this appears to be a realistic option. The Zlatovica (sp)hydrosystem includes a group of four municipalities which are in negotiations with Austrian firms.

10:00 AM EU Phare

Michael Kilcommons - Project Manager

Nafi Saracini - Project Manager

Melody Bacha

Bonnie Walter

Angela Crooks

Doug Mason

Primarily discussed projects under consideration - see attached information from EU Phare and the Donor Coordination Chart.

The overall impression is that the EU Phare is still very much in the planning stage and would work around USAID if we wanted to do something similar to what has already been proposed.

Eric Beaume is the task manager in Brussels.

Terms of Reference should be ready early next year for work starting in the spring on developing a strategy for addressing solid waste and wastewater treatment issues. This work would likely involve a number of short-term consultants who would work on technical and institutional issues.

Phare is considering placing an advisor (or two) in the MUCE, whose functions and timeframe have not yet been decided. This advisor could possibly advise on financial options and have some involvement with the environmental fund, although the concept of having someone at the Ministry is still just in the idea stage.

There will be an advisor for public administration at the central level, and any work done by USAID on work with municipalities should coordinate with this person.

EU Phare is undertaking a project to monitor water quality in the Vardar river.

Phare Counterpart Funds supporting enterprises could possibly be used to provide materials and TA to enterprises.

11:30 AM City Administration of Skopje

Naum Dimitrovski - Advisor for Urban Planning, Communal Housing, Traffic and Environmental Protection Issues

Melody Bacha

Bonnie Walter

Angela Crooks

Doug Mason

According to Mr. Dimitrovski, the Law on Local Government stripped his department of any real authority over the environment. The authority to monitor and control polluters has shifted to the MUCE from the city inspectorate services. Whereas the city measured thirteen environmental parameters in the past, the Ministry now measures only two.

If the city wants to implement an environmental project, it must submit its request to MUCE and then get approval for financing from the Ministry of Environment. Despite the fact that cities are required to fund their own projects, they seem to have no means of raising capital and are relying on the old centralized (overburdened) system of financing. Moreover, the city is losing tax revenues as the national government seizes property once belonging to the city.

The city has a budget of 4 million denars for infrastructure investments.

Mr. Dimitrovski has no hope in the referendum method (see Ministry of Finance notes) since unemployment is at 50 percent and people earn less than \$200 per month.

The city also has little control over public enterprises (utilities) which charge more for services than would private companies.

When asked what the most pressing environmental needs of the city are, Mr. Dimitrovski mentioned the city's needs for a wastewater treatment plant and necessity to expand the supply of water. Forty percent of water is currently used for non-consumer needs (i.e. agriculture, parks, and street cleaning). Wells could be built to use lower quality water for these purposes. Note: this is a water utility.

Other problems include pollution of ground waters from the chemical industry and environmental accidents from the OHIS chemical plant, river pollution problems, and toxic materials. Chrome emissions from a lithium and ferrous factory are at unknown levels in the water and present a potential catastrophe.

12:30 PM City Administration of Skopje

Petar Bocvarov - Finance Advisor

Melody Bacha

Bonnie Walter

Angela Crooks

Doug Mason

Discussion focused on possible sources for financing environmental infrastructure. The city prepares its own budget which is submitted to the Ministry of Finance for final preparation and submission to Parliament for approval. The sources of the city budget are property taxes and utility taxes. The government limits the amount that can be collected to approximately DM 3.5 million for Skopje. This is based on a per capita formula which the city claims is unfair since the cost of living in Skopje is higher than in more rural areas; more budgeting "bias" may stem from the fact that the mayor is from the opposition party. Funds in excess of the maximum budget amount are collected by the institution for payment operations and sent to the Ministry of Finance.

Public enterprises, if owned by the city, can use profits for their own purposes. Usually, public utilities are in the form of public enterprises which are owned by the city. Tariffs are set by the city within maximum amounts determined on the national level.

Foreign assistance cannot go directly to a city, but must go to an account at the Ministry of Finance. [Note: Don Manning's DAI work procured equipment, but since the city did not pay for it there was no need to involve MinFin.]

2:00 PM Regional Environment Center (REC)

Katarina Dimitrovska - Representative

Melody Bacha

Angela Crooks

Doug Mason

The REC started working with NGOs in 1991. This year, it works half the time with NGOs and half with government organizations.

The REC is essentially a logistical support center, providing contact information and basic environmental information to interested parties. They also do some work on public participation.

The REC is doing public participation work with Albania in conjunction with the World Bank project at Lake Ohrid. They are also assisting the Dutch and MUCE on the LEAPS in Skopje, Veles, Gevgelia, and Zrnovci (sp). They are also supporting projects by EU Phare and JICA.

Meetings Notes 12/4/97

10:00 AM DAI

Don Manning

Melody Bacha

Angela Crooks

We discussed site selection for a day trip, based on DAI experience. All cities have been receptive to technical assistance. Veles and Gevgelia are cities which are developing LEAPS. The third city selected, also along the river Vardar, was Kavadarci.

2:00 PM Swiss Embassy

Peter Steeli

Melody Bacha

Angela Crooks

Doug Mason

Mr. Steeli expressed some frustration in trying to determine which Macedonian organizations are responsible for which activities. Since he has been in country, the role of NGOs in this area has been increasing.

A Swiss financing consulting firm is involved in feasibility studies for Ohrid (WWT plants?). The Swiss are working with the World Bank on rehabilitation of hydroelectric power plants. May establish a national monitoring system for surface waters. This may lead to provision of some equipment, to be determined by a mission in the spring. If successful, equipment may

be provided in 1999. A Swiss NGO works with the Ecologists Movement of Macedonia, and support for the further development of the Movement may be provided by EU Phare.

4:00 PM Organization for Security and Cooperation in Europe (OSCE)

Helen Santiago Fink - Economic Officer

Melody Bacha

Bonnie Walter

Angela Crooks

Doug Mason

Ms. Fink serves as an information broker for possible environmental investments (from foreign sources) in Macedonia. For example, she is working with some people in Kavadarci to develop a proposal for minihydro and a smelter project. There may be some work in the mining sector -- gypsum, gold, copper.

She reports that industrial pollution is horrible, and resources for environmental investments are unavailable. There are only six inspectors for the entire country. The level of environmental awareness on the government level is quite low.

Hundreds of villages have contaminated drinking water, but people drink it since there are no alternative sources. The Dutch are doing some work with drinking water and sewage in rural areas.

Privatization has been through employee or management buy-out only. Bankruptcy is high, and the government is now packaging 280 companies for shareholder investment.

The Vardar Valley Consortium project, a consortium of Macedonians, will present investment needs/opportunities at an exposition in the spring. The investment areas are in agriculture, irrigation, energy (hydro), transport and environmental projects.

Meetings Notes 12/5/97

9:00 AM Royal Netherlands Embassy - Telephone conversation

Michael Stibbe - Second Secretary

Angela Crooks

The Dutch have approved two concepts for working in the environmental arena, and the terms of reference are currently being developed. They plan to work at Tito Veles, focusing on cooperation between citizens and companies in the city through public awareness. There may or may not be some direct aid to cities.

The Dutch also intend to assist in strengthening management of national parks, particularly Mavrovo National Park. The idea is to twin Macedonian and Dutch organizations, and to work on public awareness.

The Dutch will open an embassy in Skopje sometime next year.

10:00 AM Bird Study and Protection Society of Macedonia

Branko Micevski

Melody Bacha

Angela Crooks

This organization works with ISC and the REC.

On November 17, the government authorized the Bird group to managed the bird preserve on Lake Prespa; now they need help. The visitor center needs repairs to accommodate visitors and scientists. On the institutional side, assistance is needed in national park management. There is no monitoring/warden capacity, which would cost about \$10,000 per year for three wardens.

Fees may eventually be charged for park use. There seems to be great potential for ecotourism since the preserve is home to 200 species, three of which are endangered. The infrastructure in the region, however, is not very accommodating.

11:00 AM The Movement of Ecologists of Macedonia

Vlatko Utevski - Executive Council Member

Biljana Stevanovska - Assistant Coordinator

Melody Bacha

Angela Crooks

This is an umbrella organization with 18 member organizations and six associate members. They work on promoting the NEAP and developing LEAPS. Members are writing studies on sustainable development and sustainable agriculture (sponsored by Friends of the Earth Europe). They are involved in the Vardar River Valley Project.

They noted that towns were trying to work together to against pollution of the Brigalnita river and sought support from ISC; the request was rejected. Vinozhito is polluted from Stip upstream, Izgrev from Sveti Vinole and Zdrav Zivot from Kocani.

They have a directory of environmental NGOs.

2:30 PM Macedonian Business Resource Center (MBRC)

Glenn Stennes - Volunteer Coordinator

Michael Peden

Jovan Gavrilovski - Consultant

Vladimir Pesevski - Consultant

Irena Angelovska - Consultant

Melody Bacha

Angela Crooks

This project, which runs through October 1998, is working with several Macedonian companies on all aspects of operations. Some environmental issues have arisen, and they would appreciate help in locating environmental specialists to correct these problems. Examples are: Oil refinery in Veles has leaking equipment. Contact: Blagoj Gjorev. Also Zoran Mirsinov 3890 93133 855. Also lead (chemical plant in Skopje). Pharmaceuticals, paint, everything. OHIS - private, big chemical company in Skopje. Contact: Belinda Nikolovska, Chief of Protocol 110 301. A textile (collar maker) near Veles is dumping effluents into the water. There are also problems in Negotina.

Apparently, ecologically sound business practices are a new concept.

The UK is training auditors for ISO 9000. Eight have been certified near Kavadarci.

The Academy of Sciences and Arts has a Research Center for Informatics that can work with private companies on environmental issues (largely technical research).

4:30 ACDI/Volunteers in Overseas Cooperative Assistance(VOCA)

Neil Mozer - Country Representative

Linda Lind - Forestry/Biodiversity Specialist

Doug Mason

Angela Crooks

The project has been working in Macedonia for five years, responding to all kinds of requests for TA, but not providing any equipment. There has been wastewater treatment work with Stip, which DAI picked up. The project failed.

ACDI also started a food coop which promotes reduced use of pesticides (community supported agriculture).

Meetings Notes 12/8/97

Note: December 8 was spent making site visits in cities where DAI had successfully implemented projects. DAI has worked on solid waste and litter pick up (public awareness, provision of containers) in Gevgelia and Veles. In Kavadarci, they are working on wastewater treatment. Grants are limited to a maximum of \$10,000 per project.

City: Gevgelia

City Administration

CALL NATASHA AT DAI FOR CONTACT INFORMATION

City Secretary

City Architect

Don Manning

Natasha

Melody Bacha
Linda Lind
Angela Crooks

The central government has local representatives to conduct environmental inspections. There are no city environmental representatives -- THEY MUST RELY ON THE CENTRAL GOVERNMENT TO ADDRESS ENVIRONMENTAL PROBLEMS AFFECTING THE CITY.

There is no central heating. Wood was primarily used in the past, now forest enterprises supply wood for about half of the city's heating needs and the rest is electric. There is a natural gas pipeline being built from Bulgaria. It is completed to Skopje and half way to Veles, and there are plans to cover the entire country. Since Gevegelia is in the south, it will be one of the last cities to be able to tap into the pipeline.

Primary Industrial/Ecological problems:

Chicken Farm - wastewater dumped into river

Food Processing Plant "Zora" - wastewater treatment problem

Metal Parts Manufacturer - air pollution - no filters

There is no wastewater treatment. The EU may provide a feasibility study... This was unclear.

Ecosouvetir (?) is a cross-boundary Greek-Macedonian program to monitor all types of media. The laboratory would be in Greece, manned by Greek workers. The Bulgarians, Romanians and Spanish are involved as well. It is an EC initiative.

Most land belongs to the central government, so the city is unable to collect taxes from it.

Chicken Farm

Farm Director

City Architect

Don Manning

Natasha

Melody Bacha

Linda Lind

Angela Crooks

This was the biggest egg producer in the former Yugoslavia. There are three farms and 320,000 hens. It is state-owned, but the management is interested in a buy-out in the next 3-6 months.

There are three lagoons which are sufficient except when it rains; then the wastewater spills into the Vardar untreated.

***A fine of 100 average salaries plus ten times the director's salary was levied but not actually imposed; the reason is that the farm is making an effort to address the problem. They receive no support (financial) to make necessary changes (new lagoons).

The inspector has arrived 4-5 times, unannounced. He is based in Bitola and covers the entire region.

Food Processing Plant

City Architect

Don Manning

Natasha

Melody Bacha

Linda Lind

Angela Crooks

Only organic waste and water are generated; no chemicals are used. The waste is dried and put in a landfill, the water is discharged through a special canal with chlorine added as a disinfectant.

There are two problems: 1) lack of transport to take away the waste (not a constant problem) and 2) lack of water in the summer. This is a state-owned enterprise. The person we met with did not know about plans for privatization.

City: Kavadarci

Manco Micajkov - Mayor

Peace Corps Volunteer

NGO

Don Manning

Natasha

Melody Bacha

Linda Lind

Angela Crooks

Environmental problems:

And iron and nickel smelter is ten times over the norm for air pollution. There is no filter on the stack. MUCE has a resolution out to close it, but since it is a hard currency provider, it will probably continue to operate. The NGO has started a dialogue to solve the problem and buy a Swedish or Russian filter. However, the factory operates at such a capacity that it needs to be replaced every three months and is very expensive. Also, this is only one of the production lines. Produce is obtained from the area where the smelter operates. [Note: an engineering design project such as EAPS could address these issues]

The smelter employs about 600 people, more if both lines are operating. All production goes to export (France, the US). Samsung may buy 51% of the plant. There are other potential bidders (German, American).

There is an idea to use waste iron pellets in road construction. So far this is just an idea.

Parts of the city are not connected to communal services (garbage disposal, sewage).

There is no fence around the landfill, which has been invaded by pigs. A special area is being built to dispose of dead animals from the nearby livestock areas.

Kavadarci is polluted from Bitola and Prilep upstream. A wastewater treatment plant is desired; DAI has partially addressed this problem. Collection of water tariffs is a problem. The city has agreed to a special voluntary tax (held a referendum) to finance solid waste collection.

The agriculture kombinat uses mazout, which is a major polluter. The city is working with the Ministry of Health to shut down a fertilizer packaging plant.

The Peace Corps is serving as a liaison for foreign organizations.

No fines have been imposed on any company.

City: Veles

Mayor - Ordan Nikolovski
Zletovo Metallurgical and Chemical Co. "The Smelter"
Goran Arsov
Transport Company
Leather tannery

The mayor gathered together the big polluters for our convenience. There is a council of companies for the city and suburbs.

The city budget is 19.4 million denars, no line item for the environment.

The tannery is discharging chromium into the water untreated. supposedly [doubtfully] within norms. They have reduced chromium use in production by 30%, but they cannot eliminate it entirely due to cost considerations.

The company is 97% employee owned. Very receptive.

Zletovo consists of two complexes: lead, zinc and cadmium production and phosphate fertilizer. It is in the center of the city!

JICA has given them a grant to do a feasibility study on effluents. Krieger, the Danish consulting firm, has been hired to do this work for both complexes.

Sulfuric acid leaks are damaging river life. SO₂ and dust are a problem from the zinc. EU Phare is providing bag filters.

The transport company has 200 trucks. Wastewater is a problem, although solids are filtered out and there is a special canal that controls water.

A new law declares that EIAs must be done for all enterprises.

EBRD is involved in WWT funds for Skopje, Kumanovo and Veles.

Public awareness work is being done with DAI.

Meetings Notes 12/9/97

9:00 AM MUCE/Sts. Cyril and Methodius University

Professor Trajce Stafilov

Metodija Dimovski, Assistant Minister for Environment

Melody Bacha

Angela Crooks

JICA air monitoring project discussed. Skopje will be used as a model city. The Japanese are buying continuous measuring equipment and training Macedonians in both Macedonia and Japan. Sulphur dioxide and nitrogen dioxide will be measured. ICF Kaiser is involved in modelling for particle analysis. In the summer of 1998, they will measure emissions from the major factories.

A clean air law will be enacted in 1998. Parliament is currently considering a new water law. Wastewater effluents are the next step.

11:00 AM Republic Hydrometeorological Institute

Ilja Panov - Deputy Director

Melody Bacha

Angela Crooks

Meetings Notes 12/10/97

9:00 AM Vardar Valley Consortium

Professor Jordan Stavrov - project manager

Professor Andrej Tokarev - director

Mihail Tokarev - advisor (Ecologists' Movement...)

Angela Crooks

Discussed mammoth French-funded feasibility study to develop the Vardar valley. Projects include everything from moving the railroad to providing wastewater treatment facilities.

The World Bank may finance parts of it; local project management will market the "investment opportunities" at an international expo in the spring.

Persons Interviewed, with Summaries of Key Discussions on Biodiversity

The list of key counterparts is divided into 4 sections: (1) national government, (2) municipal government or the local offices of national government, (3) international donor/NGOs, and (4) national NGOs. The key points raised by each key contact appear below in italics.

National Government

Mihail Dimovski

Undersecretary

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Mihail would welcome USAID assistance in law drafting, consulting with other ministries, and international agreements. We also very much need to develop a biodiversity strategy, as it was identified as a priority in the NEAP. While the NEAP was done without the benefit of external experts, we would like to have access to some international expertise as we develop this strategy (which must be completed sometime in 1998). (The NEAP committee no longer exists, but UNDP is proposing to fund an inter-ministerial group)

The current national parks law is poor, and national park management is also poor. We have prepared a new draft parks law which will replace the old law and create new authorities, mechanisms for enforcement, etc. Currently we are also proposing the creation of a new national park (Sar planina) which will be contiguous with a park on the Serbian side.

NGOs need to step in where the government does not have the ability to do everything itself. The Bird Society has become the official management authority for the Ezerane Nature Reserve, which borders Lake Prespa. This is the first time the Government of Macedonia has transferred management authority of a protected area to a NGO. This precedent setting experiment will be closely followed. I want to prove that the most capable organization in Macedonia to manage this bird reserve is the Bird Society. A second NGO, the Peoni Cave Society, is currently drafting our national legislation for the protection of caves.

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Senior Advisor
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Kosta Trajickovski
Director
Agency of Environment and Nature Protection and Improvement
Ministry of Urban Planning, Construction & Environment

His Agency works on the development of legislation, monitoring, the preparation of studies, and the enforcement of regulations. The general law on environment contains penalties for non-compliance. Enforcement is the responsibility of MUCE and related ministries. Two draft laws are currently in preparation: a new parks law, and a new law on environmental assessment. The Environmental Fund will be used to finance actions in the NEAP as well as local EAPs. EU Phare will help provide technical assistance to develop the fund.

Teofil Zdravkovski
General Manager
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Aleksandar Trendaficov
Director of Forestry
Ministry of Agriculture, Forestry, and Water Economy
Republic of Macedonia
Leninova 2 91000 Skopje

Has 6 employees in the Department of Forestry. 90% of forests are state-owned; 10% are publicly owned. I expect the balance will shift to 80:20 as some private forests which were

confiscated are returned to their owners. We are not planning to privatize the majority of our forests, however. Public enterprises, which are self-financed, will continue to manage most forests. They pay a 15% tax, 3% of which goes to the Ministry of Agriculture. 92% of Macedonia's public forests are used economically. 8% (which include national parks) are used for “special” purposes, which include protection, recreation, parks, and defense.

We are now in the process of transition, creating a single state organization that will have 30 units — one for each of the public forestry enterprises which manage public forests in this country. Protection of all forests — public and private — is the responsibility of the state. Ten year management plans are developed for all public forests. We will also prepare a master plan for the entire country which will be for 20 years.

National parks are managed by MUCE, although we would like to have control of them (we are responsible for overseeing implementation of their management plans). All three national parks have 3 zones: strictly protected, sanitary cutting, and recreation. Few management activities occur in parks; we mostly respond to natural disasters. There are 253 hunting areas, 4 of which are in state ownership.

The plan for the “biological protection of forests” mentioned in the NEAP may refer to integrated pest management rather than the use of pesticides. Forest fires are a big problem, and we would benefit from t.a. on forest fire control.

Voislav Popov
Director of Administration for Water Economy
Ministry of Agriculture, Forestry, and Water Economy
Republic of Macedonia
Leninova 2 91000 Skopje
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This administration is responsible for all water use — drinking, industry, irrigation, and treatment. In urban areas, we give permission to a utility to provide drinking water.

We do have problems with Greece — tell them to start a dialog with us! Ecological groups are mounting pressure which I think will ultimately lead to success. Local residents on both sides are interested in resolving the problem. The problem has been present since 1988, and perhaps half the water has been lost in Lake Dojran (3m at least, and the lake is only 10m deep). 2/3 of the catchment area is in Greece, and they are using more water than they are permitted to irrigate 700 ha of agricultural land. Water is therefore diverted and never makes it to the Lake. Since 1978 we have been proposing an integrated water management plan.

We do not have significant problems with the Albanians, although the central government in Albania has no control over the municipalities. But this should be resolved and we expect good cooperation.

The ecologists are pessimistic about Prespa. There has been a decline in water level, but more recently it appears to be increasing. We do not have good data. The Albanians are using more water than they agreed to with Macedonia, but they are returning the surplus outside of the agricultural season, so I don't think that this is the problem. We need to study this. No donor is currently working in Prespa.

In the future, use of water in the Vardar River may become an issue with Greece, as we are upstream. A big issue in this country is that people need to understand that water resources are limited. We will have to pay for water and we will have to use it wisely, for this generation and the next one.

Risto Tanaskovski
Assistant Minister of Agriculture, Livestock, and Pastures

Livestock production is regulated by a recently passed law. There are 620,000 ha of pastures in Macedonia, of which only about 10% are privately owned.

Municipal Government/Local Offices of National Government

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Backa

Naum Dimitrovski
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The Mayor of Skopje
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The new local government law has taken away nearly all local government authority related to environmental protection. We don't even have the right to monitor and control activities, which I believe is a step backward. All authorities have been given to MUCE.

My organization is responsible for urban green spaces. We have a large number of ill trees because of the air pollution. Some are also infected by disease. The Faculty of Forestry has told us that they don't know how to respond to the disease. I do not know if we need any assistance in urban forestry. We do have internal problems; the public enterprise responsible for tree maintenance is not very efficient, and we do not have control over them. Twenty percent of the water fees go to the parks and greenery enterprise. We estimate that the funds could be better spent if they went directly to the city.

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Donors/International NGOs

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ISC is strengthening NGOs, with a strong emphasis on environmental NGOs, helping them to influence government and to implement programs. We have helped NGOs participate in the NEAP. As a follow up, we have been helping some NGOs participate in local environmental action plans (LEAPs). USAID has funded 4, and the Dutch will fund 4. If our agreement with USAID is extended, we will fund additional LEAPs and focus our institutional strengthening on a smaller group of NGOs, working with them for longer periods of time.

NGOs here are geographically-based, not issue-based. They are usually based in a town, and their goal is local environmental improvement. The country is being created from scratch, as 120 local governments have been created but given virtually no resources. The laws suggest that they have a tremendous amount of responsibility, but this has been an unfunded mandate.

The Birds Society is one of the 10 strongest NGOs in Macedonia, across all sectors. We have awarded them 2 grants (the second was contingent on co-funding, which they were unable to secure from the British). They are a very professional NGO. ISC could probably

include the Bird Society as one of the NGOs that we focus our attention on. We could also probably pass money through to them, if USAID requested, as we are set up to make grants. It is also possible that we could chose to work with NGOs/municipalities in or near national parks, if USAID wanted to make park conservation on of the foci of its programs.

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Set up with USG help, the REC is mostly EU funded. It began in 91 to help foster NGO development, but now we are working as much with governments as with NGOs. We are looking where government/ngos/business can work together.

We have been working on the public consultation part of the Lake Ohrid project. We also give t.a. to NGOs so that they can become stronger and contribute to the conservation of the Lake. With Dutch help, we are helping prepare 4 LEAPs; this began in 11/97. Under law, municipalities must prepare a LEAP within 5 years.

WWF is doing a regional study on Mediterranean forests. Dimitar Rolevski (tel. 145-506, fax 139-416). Bird Society is a capable NGO which proposed the creation of the Ezerane Strict Nature Reserve and has now been granted authority to manage it. Scout groups outside Skopje are doing some excellent education work, including some tourism work along Lake Ohrid. They have some small patrols along the Lake to ensure that tourists follow the rules. Since the kids are Scouts, it gets their parents involved. Business is financing some of their activities.

National NGOs

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Some of Macedonia's most important areas for biodiversity conservation

Šar planina (Šara Mountains) (51,000 ha)

Proposed as a protected area. A high mountainous region with river gorges, cliffs, rocky hillsides, alpine pastures, and woodland (both coniferous and deciduous). Harbors many endemic plants. Land-uses included cattle grazing and forestry. There is uncontrolled hunting in the Macedonian part, and forestry practices, road-building, and tourism are adversely affecting the area.

Planina Korab i Klisura Radike (Korab Mountain and Radki Gorge) (50,000 - 60,000 ha)

Partially protected in Mavrovo National Park. Cliffs, rocky gorges, mountains (deciduous and coniferous), and alpine pastures. Land uses include cattle grazing and forestry. Some illegal hunting and trapping of wildlife takes place.

Klisura reke Babunen i Topolke i Crn Kamen (Babuna Gorge, Topolka Gorge, and Black Rock) (2,500 - 3,000 ha)

Unprotected, although was proposed as an Ornithological Reserve. Contains the three gorges listed above with cliffs, riverine vegetation, and scrub-covered hillsides. Land uses include hunting and cattle grazing.

Reke Bregalnica (Bregalnica River) (10,000 ha)

Unprotected. A river valley with damp woodland, steppe habitat, bare eroded land, bushes, and trees. There is hunting, a small area of cultivation, and cattle grazing in the winter.

Klisura Crna reka (River Crna Gorge) (40,000 ha)

Unprotected, although there is a small Hunting Reserve. Gorge of the River Crna, with cliffs, scrub and woodland (including Beech and Oak forest), bare and eroded land, an artificial lake without vegetation, and grazing pasture. This is largely a wilderness area, with few roads and some hunting, fishing, and cattle grazing. Problems at the site include illegal trapping and housing construction.

Demir kapija (Demir Kapija Gorge) (8,000 - 9,000 ha)

Unprotected, but proposed as an Ornithological Reserve. Includes the Vardar Gorge, River Čelevečka and Krastavec Ridge, with cliffs and rocky hillsides, scrub, and woodland. There is also small areas of marsh, damp woodland, and some steppe habitat in the Vardar Valley. Mainly accessible, but some of the area is used as agricultural land, while hunting and cattle grazing also take place. Hunting, wildlife trapping, the theft of raptor eggs and young by foreigners, road and quarry building, and the cutting of trees and bushes are problems at the site.

Kožuf i Bošava Mountains (Kožuf Mountain and the Bošava region) (20,000 ha)

Unprotected. A mountainous area with alpine pastures, cliffs, rocky hillsides, bare and eroded land, coniferous woodland (*Pinus nigra*, *P. sylvestris*, and *Abies alba*) and Beech woodland. Land uses include forestry and cattle grazing. Problems at the site include hunting, illegal trapping and poisoning, and forestry.

Ohridsko jezero (Lake Ohrid)

A World Heritage Site. A large inland freshwater lake in a mountainous region. Rich in aquatic biodiversity with internationally important wetlands.

Prespansko jezero (Prespa Lake)

A large (285 km²) freshwater lake, surrounded by wetlands and mountains. Galichica National Park includes the western portion of Prespa Lake, and Pelister National Park lies up the watershed to the east. In addition, on the Greek side Minor Lake Prespa and the Greek part of Lake Prespa have also been designated as National Parks. Thus, the basin of the Lake is protected on three sides.

Sources

Grimmet, R.F.A., and T.A. Jones. 1989. Important Bird Areas in Europe. International Council for Bird Preservation Technical Publication No. 9. Cambridge, UK.

Note: some of the information regarding land uses and threats may be dated, as the source is nearly 10 years old. However, these areas (and likely others) are still likely to be important for biodiversity conservation.

Bird Study and Protection Society of Macedonia. Project: Lake Prespa.

CONTACTS DURING THE COURSE OF THE PREPARATION OF THE STRATEGY

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Irena Angelovska, Consultant, Macedonian Business Resource Center
 Goran Arsov, Environmental Department, Zletovo Metallurgical and Chemical Co.
 Petar Bocvarov, Finance Advisor, City Administration of Skopje
 Majorie Anne Bromhead, Ellen Goldstein's assistant, World Bank Resident Mission
 Katarina Dimitrovska, Representative, Regional Environment Center
 Naum Dimitrovski, Advisor for Urban Planning, Communal Housing, Traffic and Environmental Protection Issues, City Administration of Skopje
 Metodija Dimovski, Assistant Minister for Environment, Ministry of Urban Planning, Construction, and Environment (MUCE)
 Mihail Dimovski, Undersecretary for Environment, Ministry of Urban Planning, Construction, and Environment (MUCE)
 Helen Santiago Fink, Organization for Security and Cooperation in Europe (OSCE)
 Bruno Flourens, consultant, Vardar Project, French Implementor, CNR Rhone National Company
 Jovan Gavrilovski, Consultant, Macedonian Business Resource Center
 Ellen Goldstein, Washington based project manager, World Bank Resident Mission
 Steve Gonyea, Private Sector Officer, USAID/Macedonia
 Dimitar Hadzi-Misev, Manager, Toplifikacija
 Steve Haynes, Mission Representative, USAID/Macedonia
 Aleksandar Ivanovik, Director, Water Utility Company of Skopje
 Michael Kilcommons - Project Manager, Macedonia, EU Phare
 Don Manning, Chief of Party, DAI Development Alternatives, Inc.
 Gerard McGurk, Project Officer, U.K. Know-How Fund, British Embassy
 Manco Micajkov, Mayor, Kavadarci City Administration
 Branko Micevski, President/Associate Professor, Bird Study and Protection Society of Macedonia
 Neil Mozer, Country Representative, ACDI/VOCA
 Pano Mudarov, Kavadarci City Administration
 Aleksandar Nacev, Agriculture & Environment Coordinator, World Bank Resident Mission
 Steve Nicholas, Country Director, Institute for Sustainable Communities
 Ordan Nikolovski, Mayor, Veles City Administration
 Ilja Panov, Deputy Director, Republic Hydrometeorological Institute
 Michael Peden, Macedonian Business Resource Center
 Vladimir Pesevski, Consultant, Macedonian Business Resource Center

Eric Richardson, Democracy and Environment Officer, USAID/Macedonia
Afrodita Salja, Assistant Project Officer, USAID/Macedonia
Joco Sami, Engineer, interpreter, Toplifikacija
Nafi Saracini - Project Manager, Macedonia, EU Phare
Stevanovska, Assistant Coordinator, The Movement of Ecologists of Macedonia
Peter Steeli, Country Representative, Swiss Embassy
Glenn Stennes, Volunteer Coordinator, Macedonian Business Resource Center
Michael Stibbe, Second Secretary, Royal Netherlands Embassy
Steve Szadek, General Development Officer, USAID/Macedonia
Mitko Todevski, Financial Advisor for Local Government, Ministry of Finance
Vlatko Utevski, Executive Council Member, The Movement of Ecologists of Macedonia

INTER-ETHNIC RELATIONS:

Aliu, B. Bix. Administrative Assistant, USIS
Arsenal, Mark. Country Director, National Democratic Institute
Benderly, Jill. Regional Director, Delphi Project
Cokrevska, Melita. Macedonian, Translator, USAID
Fraenkel, Eran. Country Director, Search for Common Ground
Gillen, Steven G. M. Fulbright Fellow: Faculty of Law, University of Sts. Cyril & Methodius, Skopje
Huntington, Richard. USAID
Imeri, Afrodita. Kosova Albanian. Project Assistant, Delphi Project
Johnson, Edith. Country Coordinator, Delphi Project
Kostovski, Nikolai. Advertising. Macedonian
McKillop, John. Country Director, Land of Lakes
Mayes, Heather. Washington backstop, National Democratic Institute
Padilla, Leslie. Political/Econ Officer, US Embassy, Skopje
Petroska Beška, Violeta: Professor of Psychology, University of Sts. Cyril & Methodius, Skopje. Project Director, Ethnic Conflict Resolution Project.
Patton, Kent. International Republican Institute
Shalja, Afrodita. Program Assistant, USAID.
Sulejmani, Prof. Dr. Fadil. Rector. University of Tetova
Tartakovski, Dmitri. Fulbright Scholar, History MA candidate, University of Arizona
Williams, Abiodun. Political and Humanitarian Affairs Officer, UNPREDEP

Focus Groups:

University Students: (March 23)

Rashiti, Jeton. Student, Department of English, University of Sts. Cyril & Methodius, Skopje
Popovska, Kalia. Student, Department of English, University of Sts. Cyril & Methodius, Skopje
Kocev, Velko. Student, Department of English, University of Sts. Cyril & Methodius, Skopje

Gostivar Women's NGO Leaders: (March 27)

Aga, Sadika. Organization of Turkish Women, Gostivar

Aljareh, Kristina. Organization of Macedonian Women, Gostivar

Dari, Safia. League of Albanian Women, Gostivar

Radoviš Macedonian Leaders: (March 28)

These did not want to write down their names, but included an Advocate, a Public Prosecutor, and a Journalist

Land of Lakes Agricultural Field Agents: (March 30)

Jeton Staroua (Coordinator)

Angjend Osmani

Radoslav Bratkousus

Boban Ilie

NGO SECTOR

Ms. Jill Benderly, Regional Director, Delphi International

Dr. Dan Blumhagen, USAID/PPC/CDIE/PME

Mr. Zoran Cali, Administrative Director, Open Society Institute Macedonia

Mr. Borce Davitofsky, Vice Dean, Skopje Law School Faculty

Mr. Stephan Haynes, USAID Representative

Ms. Edith Johnson, Project Coordinator, Delphi International Macedonia and staff

Ms. Julie Chen, Country Representative, CRS/Macedonia

Ms. Natasha Gaber, Institute for Sociological, Political and Juridical Research, Center for Ethnic Relations
Dr. Eran Fraenkel, Executive Director, Search for Common Ground

Mr. Shpend Imeri, President, Association for Democratic Initiatives, Gostivar

Mr. Saso Klekovski, Programme Director, Macedonian Center for International Cooperation

Mr. Sreten Koceski, President, Youth Info-Ecocenter, and staff, Tetovo

Members of League of Albanian Women of Macedonia, Gostivar

Mr. Steven Nicolas, Director, Institute for Sustainable Communities and staff

Participants, Delphi-sponsored Workshop on Women's Issues and Elections, Struga

Mr. Eric Richardson, USAID Program Officer

Mr. Doug Rutzen, International Center for Not-for-Profit Law

Mr. Nafi Saracini, Project Manager, EU-PHARE Implementation Office

Dr. Afrodita Shalja, USAID NGO Assistant

Mr. Stephan Szdeck, USAID General Development Officer

Mr. Fritz Weden, USAID Consultant developing Mission Strategy

PRIVATE SECTOR

Apostolova, Maja, Head of Department, Ministry of Foreign Affairs

Arsovski, Dragoljub, Undersecretary, Ministry of Finance

Baum, Monica, Legal Liaison, ABA/CEELI

Beaumont, Enid, Central Government Project (Institute of Public Administration/Barents Group)

Bishev, Gligor, National Bank of Macedonia

Bosco, Daniel, Chief of Party, USAID Commercial Law Project

Bosev, Viktor, Lantana (private business)

Bundaleska, Snezana, Legal, Personnel and Human Resource Manager, National Bank of Macedonia

Cekovska, Liljana, Executive Director, Macedonian Business Lawyers Association

Collinson, Noel, Advisor, Macedonian Business Resource Center

Corker, Robert, Deputy Division Chief, International Monetary Fund

Cupev, Milco, Director, Legal, Administrative & PR Department, Macedonian Stock Exchange

Filipovska, Natasa, Associate Consultant, Macedonian Business Resource Center

Freeman, Sheila, Director of Projects, CFED

Gavrilovski, Jovan, Consultant, Macedonian Business Resource Center

Gold, Michael, Crimson Capital Corporation

Goldstein, Ellen, Chief of Mission, World Bank

Gourley, Robert, Bankruptcy Administration Project

Haddon, J.M., Banking Supervision Consultant/London

Hadzi Vasileva-Markovska, Verica, Director, National Privatization Agency

Harris, David, Ordinance Survey/London (EU/Phare Land Policy and Cadastre Project)

Hepp, John, Macedonian Accounting Professionalization Project

Hill, Christopher R., Ambassador, US Embassy

Islam, R., World Bank (Macedonia Country Economic Memorandum Team Leader)

Ivanov, Kiril, Ivoprom (private business)

Ivanov, Stojan, Ivoprom (private business)

Jensen, Jack, Deputy Program Director, Macedonian Banking Operations Center

Jones, Paul W., Deputy Chief of Mission, U.S. Embassy/Skopje

Kadriu, Gazmend, Manager, Supervision Department, National Bank of Macedonia

Kandikjan, Vladimir, President, Securities and Exchange Commission

Kocov, Bozidar, President, Macedonian Association of Judges

Kosturanov, Oliver, Banking Advisor, Macedonian Banking Operations Center

LeDuc, Brian, Legal Liaison, ABA/CEELI

Latif, Samir, Consultant, Macedonian Business Resource Center

Lazovski, Slavko, Chief of Tax Department, Ministry of Finance

Ljubeckij, Natasa, Consultant, Macedonian Business Resource Center

Luft, David, Macedonian Business Resource Center

McGurk, Gerard, British Know-Fund Officer

Matakova, Slobodanka, Macroeconomist, World Bank

Manova, Antoneta, Head of the Governor's Office, National Bank of Macedonia

Mihajlova-Tikvarovska, Olga, PR and Promotion Department, National Privatization Agency

Mozer, Neil, Country Representative, Volunteers in Overseas Cooperative Assistance

Nikoloski, Trajan, Assistant to the Minister, Ministry of Finance

Nikolovski, Stefan, Assistant Minister, Ministry of Foreign Affairs

Obregon, Raymond, Director of Operations, CFED
Padilla, Leslie M., Political/Economic Officer, U.S. Embassy/Skopje
Panev, Jordan, Assistant Minister, Ministry of Foreign Affairs
Pappalardo, Salvatore, Program Director, Financial Services Volunteer Corps
Passas, Theodore M., First Counsellor, Greek Embassy/Skopje
Paulson, Jo Ann, Senior Economist, World Bank
Peden, Michael, Macedonian Business Resource Center
Pesevski, Vladimir, Consultant, Macedonian Business Resource Center
Peters, Lars, Program Director, Macedonian Banking Operations Center
Porter, Dianna, Director for Macedonia, CARANA Corporation
Prouzet, Michel, EU/Phare (Approximation of Laws Project)
Randazzo, Anthony, Regional Director, Financial Services Volunteer Corps
Razzaz, Omar, Private Sector Development Specialist, World Bank
Saracini, Nafi, Project Manager, EU/Phare
Snezana, Andova, Executive Director, Moznosti Microfinance Project
Sosa, Susana, Economist, International Monetary Fund
Spear, Charles, Tax Administration Advisor, U.S. Treasury/Skopje
Stavreski, Zoran, Research Department Director, National Bank of Macedonia
Stefanovski, Bosko, Tax Administration Manager, Public Revenue Office, Ministry of Finance
Stennes, Glenn, Training Division Manager, Macedonian Business Resource Center
Steriev, Ivan, Floor Manager, Macedonian Stock Exchange
Tardy, Patrick, Senior Private Sector Development Specialist, World Bank
Wilson, Andy, International Securities Consultancy/London
Yazbek, Antoine, General Director, Hotel Continental
Zarezankova-Potevska, Marija, Small Business Department, Ministry of Economy
Zografski, Evgeni, Managing Director, Macedonian Stock Exchange
Zoric, Julijana, Banking Advisor, Macedonian Banking Operations Center